



To: COUNCIL
Meeting Date: 5/30/2023
Subject: 2024 Budget Timeline and Guidelines
Submitted By: Sheryl Ayres, Chief Financial Officer
Prepared By: Katie Fischer, Deputy Treasurer
Report No.: 23-096-CRS
File No.: C11
Wards Affected: All Wards

RECOMMENDATION(S):

THAT Report 23-096-CRS 2024 Budget Timeline and Guidelines be received;
AND THAT staff prepare the 2024 budget including operating forecasts for years 2025 through 2027 and capital forecasts for years 2025 through 2033;
AND THAT staff be directed to prepare the 2024 tax-supported operating budget consistent with the tax levy increase forecast through the approved 2023 budget;
AND THAT staff be directed to prepare the 2024 water utility budget consistent with the water and wastewater fees and charges forecast through the approved 2023 budget and in accordance with the approved 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 in accordance with the Downtown Business Improvement Area (BIA) By-Law 21-016, each BIA submit its 2024 budget to City staff by October 1, 2023;
AND FURTHER THAT the 2024 budget and business plan timeline as set out in report 23-096-CRS be approved.

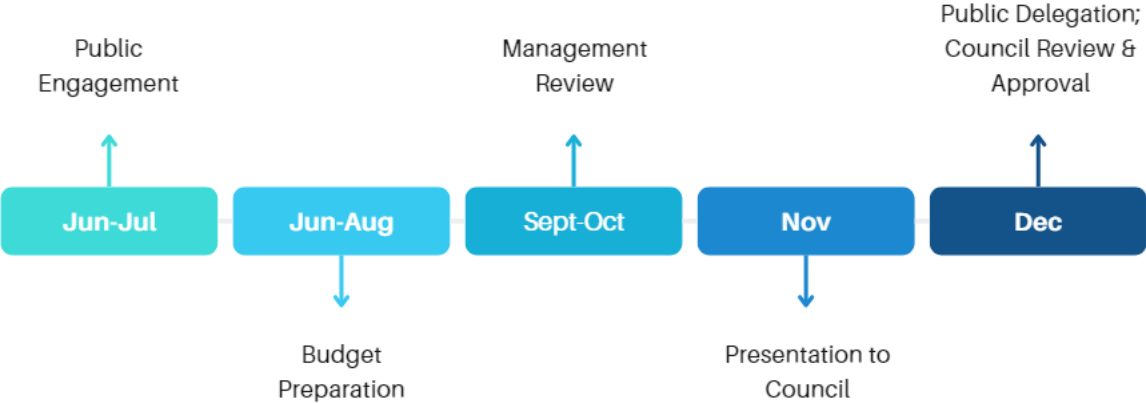
EXECUTIVE SUMMARY:

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 2024 Budget and Business Plan.

Key Findings

- An update to the City’s Strategic Plan for the period of 2024-2026 is currently underway. Staff will be seeking endorsement on the key components of the updated Strategic Plan (goals objectives and actions) in the third quarter this year. It is then expected that the 2024 Budget and Business Plan will be prepared based on these endorsed strategic priorities.
- Staff recommend that the 2024 tax-supported operating budget be prepared consistent with the tax levy increase forecast from the 2023 budget process, of 6.40%. This projected tax levy increase includes the forecasted inflationary impacts required to maintain existing service levels, as well as the impacts from capital projects, growth, and new service level initiatives.
- Staff recommend that the 2024 water utility budget be prepared consistent with the forecast water and sewer combined rate increase of 3.90% approved through the 2023 budget process and in accordance with the Council approved 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.
- Utilizing the capital prioritization model, staff will review and update the 2024-2033 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 2024 budgets to staff by October 1, 2023. 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 2024 budget process is as follows:



Financial Implications

- The forecasted tax levy increase of 6.40% would have an estimated annual impact of \$30 per \$100,000 of residential assessment, equating to \$100 for the average household.
- The forecasted combined water and sewer rate increase of 3.90% would have an estimated annual impact of \$43 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 2024 Budget and Business Plan will be prepared within these Council-approved debt policy limits.

STRATEGIC ALIGNMENT:

- Strategic Action; or
- Core Service

Objective(s): Not Applicable

Strategic Action: Not Applicable

Program: Finance

Core Service: Financial Planning

The 2024 budget process enables staff to focus on responsible financial management while maintaining transparency and accountability to management, 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:

- 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.

- 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.
- Incorporating business plans for comprehensive budget and business planning.

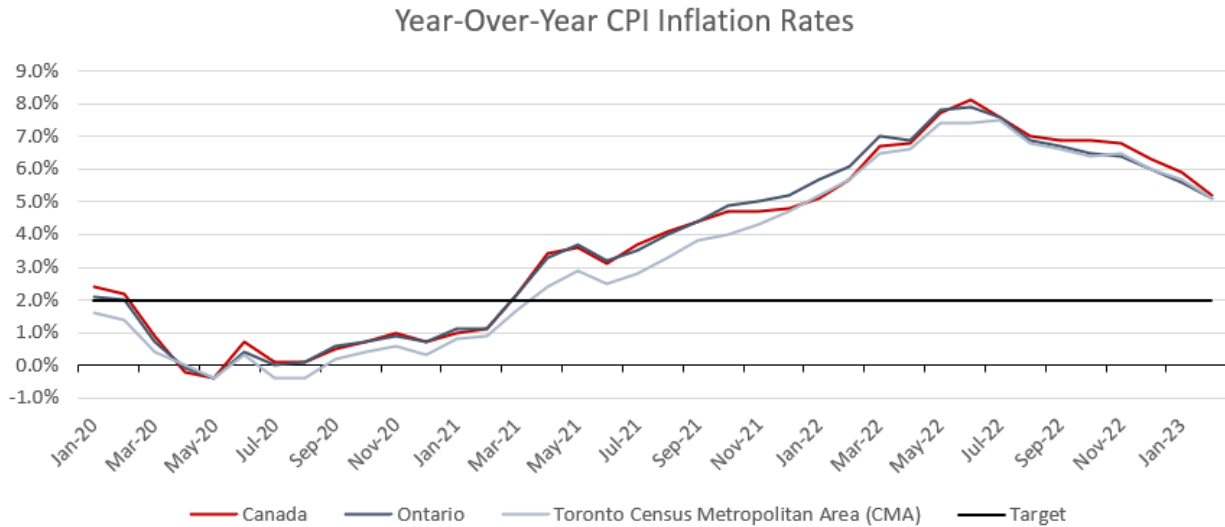
In recognition that the City's Budget and Business Plan meets the highest quality level, the City has won the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for three years in a row with its 2020, 2021 and 2022 budgets. The 2023 Budget and Business Plan was also prepared utilizing these same standards, and staff await the results on receiving this award for a fourth year in a row. 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, business planning and reporting.

ANALYSIS:

Economic Update

The major economic story of the past year has been the high level of inflation, reaching a 40-year high peak in mid-2022. In its latest Monetary Policy Report from April 2023¹, the Bank of Canada notes that global inflation is coming down. As seen on the graph below, the Consumer Price Index (CPI) rate of inflation in Canada and locally has been decreasing since that peak in 2022, and is currently 4.3% as of March 2023 (the latest data available at the time of writing this report).

¹ <https://www.bankofcanada.ca/wp-content/uploads/2023/04/mpr-2023-04-12.pdf>



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

According to the Bank of Canada in its April 2023 Monetary Policy Report, the CPI rate of inflation is forecast to average 3.5% in 2023. This continues to be above the Bank of Canada’s inflation target of 2%, but is much lower than the average in 2022 of 6.8%.

Demand for goods and services in Canada still exceeds supply, which is one factor leading to the continued elevated inflation rates. Additionally, the labour market remains tight, with the unemployment rate lower than historical trends as seen in the graph below.



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

The Bank of Canada has used monetary policy tools to help cool the economy and lower the rate of inflation, with the main tool being increasing its policy interest rate. From March 2022 to January 2023, the Bank of Canada had increased rates on 8 occurrences from a low of 0.25% to the current rate of 4.50%. Since January 2023, the Bank of Canada has held this rate steady through its March and April rate announcements. The elevated interest rate is having a cooling effect on the economy, such that economic growth is anticipated to be lower in 2023 than in past years. Canada's growth in its Gross Domestic Product (GDP) – a monetary measure of the value of all the goods and services produced and sold in the economy – averaged 3.4% in 2022 but is forecast to average 1.4% in 2023, followed by 1.3% in 2024, and returning to a more typical level of 2.5% in 2025².

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.

Recognizing that many parts of the local economy were in recovery mode through 2022, recovering from the impacts of the COVID-19 pandemic, the 2023 Budget and Business Plan was approved with a tax levy increase well below the rate of inflation and the lowest tax levy increase of all the municipalities in the Region of Waterloo.

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 2023, the City's budget for maintaining existing service levels increased 2.93%, well below the average rate of inflation in 2022 of 6.8%. The net impact of growth added an additional 0.34% to the budget, and the funding of waived development charges for the core areas added 1.47%. Overall, the 2023 Budget and Business Plan represented a tax levy increase of 4.74%.

The City was able to approve the 2023 tax levy increase below the rate of inflation through a combination of continuous improvement, efficiencies, as well as through deferring some cost increases to future year budgets. In some cases, costs are known to be increasing but the City forecasted that with the timing of contract renewals and

² <https://www.bankofcanada.ca/wp-content/uploads/2023/04/mpr-2023-04-12.pdf>

gapping savings these impacts could be absorbed for 2023. However, in future years as costs continue to rise they will need to be reflected.

As such, the 2024 tax levy increase forecast approved through the 2023 budget included a base budget increase – to maintain existing levels of service – of 4.70% for 2024. While this is at present time above the current and forecasted rate of inflation, it represents in part the deferral of cost increases from the 2023 budget.

Other impacts forecasted to the 2024 budget include:

- One-time costs of 0.27%
- Growth impacts of 0.23%
- Various impacts from capital projects totalling 2.47%
- Net of forecasted assessment growth of 1.27%

In total, the 2024 forecasted tax levy increase approved through the 2023 budget process is 6.40%.

Budget Component	Projected Tax Levy Increase
Base Budget	4.70%
One-Time	0.27%
Growth	0.23%
Impacts from Capital – Debt Costs	0.27%
Impacts from Capital – Contribution for Rehabilitation and Replacement of Growth Assets	0.80%
Impacts from Capital – Technology Services	0.60%
Impacts from Capital – Cambridge Sports Park	0.62%
Impacts from Capital – Other	0.18%
Assessment Growth	-1.27%
Total Forecasted Tax Levy Increase	6.40%

Staff recommend that the 2024 tax-supported operating budget be prepared consistent with the tax levy increase forecast from the 2023 budget process, of 6.40%. Utilizing the forecast from the 2023 budget process as a guidepost for the 2024 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.

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 3.90% over the next 10 years.

On February 21, 2023, Council approved the 2023 water utility budget and the projected water utility rate increases of 3.90% in 2024, 3.86% in 2025, and 3.68% in 2026. It was noted, however, in report 23-079-CRS presented to Budget and Audit Committee on February 9, 2023, that following budget preparation the Region of Waterloo informed the City that their forecasted rate increases for the treatment of water and sewer exceed those previously built into the City's forecast. While this increase was absorbed within the 2023 budget, Staff noted there may be impacts on future budgets moving forward.

Staff recommend that the 2024 water utility budget be prepared consistent with the forecast and the approved 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 2023 budget included over \$591 million of capital projects funded over 2024 to 2032. This includes \$129 million in capital levy funding, \$219 million in funding from other reserve funds such as water utility rates and the Fleet Equipment reserve fund, and \$116 million in debt funding. Specifically for 2024, the forecast included \$140 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 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 shortfalls in funding, a number of projects remain unfunded within the ten-year capital forecast. Through the 2023 capital budget, there were 100 unfunded capital projects between 2023-2032 with a total forecasted cost of \$131.2 million from all funding sources. These 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 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 2024 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, the City may consider implementing a special capital levy as many comparator municipalities have done. This special capital levy effectively provides a designated percentage of the tax levy annually, devoted towards

asset sustainability. Local municipalities who have implemented such a levy include the City of Waterloo, Township of Wilmot, Township of Woolwich, and Township of Wellesley. City staff are preparing a state of the infrastructure report that will be presented to Council in the fall of 2023 which will provide further analysis on the City's current infrastructure gap and future funding options.

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 costing³. These are referred to in the budget as "sustainable capital contributions" and will be incorporated in the City's 2024 Budget and Business Plan in accordance with the City's financial policies and municipal best practices.

Business Improvement Area ("BIA") Budgets

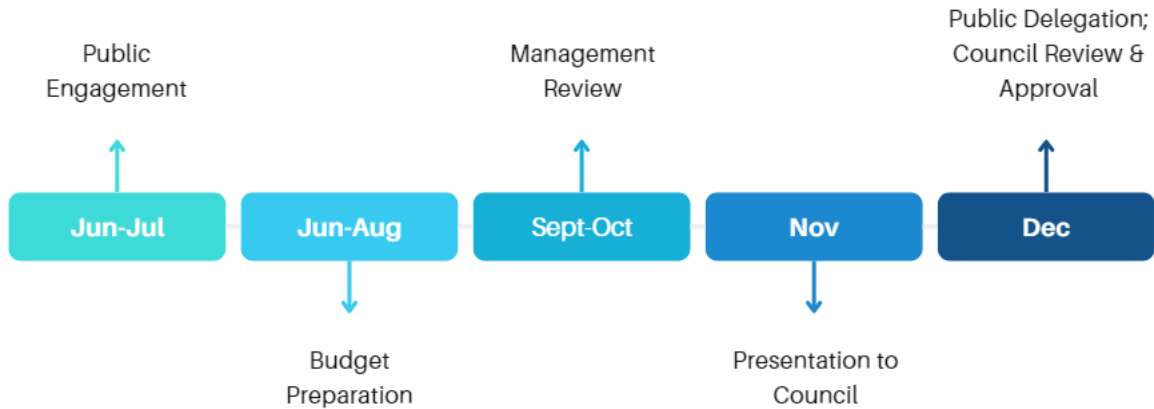
With Council direction, the City requests the Downtown BIA's to deliver their 2024 budgets to staff by October 1, 2023. This is in accordance with the BIA By-Law 21-016 and will allow City staff the opportunity to incorporate the BIA funding requests into the City's overall budget documents.

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 2024 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. For example, of the four road reconstruction projects that were approved in December 2022 in advance of the overall 2023 capital budget approval, the City realized overall savings of 16% compared to budget, in part due to an early procurement process.

The timeline for the 2024 budget and business plan process is as follows:

³ 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. 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:

The 2024 tax-supported operating budget is proposed to be prepared consistent with the forecast tax levy increase approved through the 2023 budget process. The forecasted tax levy increase of 6.40% would have an estimated annual impact of \$30 per \$100,000 of residential assessment, equating to \$100 for the average household.

The 2024 water utility budget is proposed to be prepared consistent with the forecast rate increase approved through the 2023 budget and taking into consideration the approved water and wastewater long-range financial plan in accordance with O. Reg. 453/07, 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 3.90% would have an estimated annual impact of \$43 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. As presented to Council through the Recreation Complex on March 30, 2023, the City is currently forecasted to reach a peak debt limit of 13.1% by 2027, limiting the capacity available for additional debt in the capital plan at the present time. The 2024 Budget and Business Plan will be prepared within the Council-approved debt policy limits.

PUBLIC VALUE:

The 2024 budget process enables staff to focus on sustainable financial management while maintaining transparency to the public through the development of detailed Budget and Business Plan document. It also provides for engagement through the Community Satisfaction Survey and hearing of delegations at Council.

ADVISORY COMMITTEE INPUT:

Not Applicable.

PUBLIC INPUT:

The 2024 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 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 2024 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 2024 budget.

Staff propose that the 2024 tax-supported operating budget consistent with the forecast tax levy increase approved through the 2023 budget. Staff further propose that the 2024 water utility budget will be prepared consistent with the forecast rate increase approved through the 2023 budget and taking into consideration the water and wastewater long-range financial plan approved in accordance with O. Reg. 453/07, 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 2024 budgets to staff by October 1, 2023. 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:

Not applicable.