



Staff Report

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Report To:	Joint Committees	
Date of Meeting:	September 14, 2020	Report Number: FND-030-20
Submitted By:	Trevor Pinn, Director of Finance/Treasurer	
Reviewed By:	Andrew C. Allison, CAO	By-law Number:
File Number:		Resolution#: JC-128-20, C-377-20
Report Subject:	2021 Budget Guidelines and Update	

Recommendation:

1. That Report FND-030-20 be received;
2. That Staff prepare a draft budget with a target municipal increase of 3.55 per cent;
3. That Staff include within the draft budget requests for funding from external agencies up to a maximum limit of 1.80 per cent;
4. That the 2021 budget schedule, as outlined within the report, be approved;
5. That Staff report to Council on procedures for the establishment of a pilot project for participatory budgeting projects within the Municipality with a starting funding level of \$100,000;
6. That Staff develop a Determination of User Fee Revenue Policy, and review the current user fees charged by the Municipality to determine if they are appropriate; and
7. That all interested parties listed in Report FND-030-20, and any delegations be advised of Council's decision.

Report Overview

Council adopted a budget policy that guides the preparation of the annual operating and capital budgets process. The budget policy requires an annual report to Council to determine the target municipal levy change for the following year. This report meets that policy requirement.

1. Background

Budget Policy

- 1.1 On June 10, 2019, Council approved a new Budget Policy which provides guidance on the creation and preparation of the annual operating and capital budgets.
- 1.2 As part of the policy, the Director of Finance/Treasurer is required to report to Council in September of each year with a report seeking guidance on the target municipal levy increase for the upcoming budget year. This report meets this policy requirement.

2. Economic Factors

- 2.1 Economic factors impact the Municipality of Clarington's budget and fiscal capacity outside of its control. The following sections provide insight into the economic factors that must be considered in the development of the 2021 budget.

Canadian Economy

- 2.2 The Canadian economy saw a significant decline as a result of the COVID-19 pandemic. In its Economic and Fiscal Snapshot 2020 released on July 8, 2020, the Government of Canada revised several forecasts:
 - a. 2020 real GDP growth was reduced from +1.6 per cent to -6.8 per cent;
 - b. 2021 real GDP growth was increased from +1.8 per cent to +5.5 per cent;
 - c. 2020 GDP inflation was reduced from 2.0 per cent to 0.5 per cent with 2021 rising to 2.2 per cent;
 - d. 10-year government bond rates dropped from 1.6 per cent to 0.8 per cent in 2020;
 - e. 10-year government bond rates dropped from 2.0 per cent to 1.0 per cent in 2021;

- 2.3 The above revisions to economic forecasts highlight the tremendous impact the pandemic has had on the Canadian economy. While 2021 is expected to be a better year than 2020, there will be a long-term economic impact that will still be felt in 2021.
- 2.4 Private-sector forecasts are outlining a faster rebound in real GDP than in the past three recessions as a result of the actions taken by the Government of Canada for fiscal support.
- 2.5 Forecasts show a decline in the unemployment rate from approximately 13 per cent at the end of the second quarter 2020 to approximately 7.5 per cent by the end of 2021. This is still higher than the pre-pandemic unemployment rate of just under 6.0 per cent.
- 2.6 The Government of Canada stated that as a second wave could equal or surpass the initial spread; however, the economic impacts are not expected to be as severe.
- 2.7 Based on the above, a significant austerity budget for the Municipality may not be warranted as the economy is expected to rebound significantly next year. Further, the costs of providing services are not likely to decrease; therefore, tax levy required to fund services is not expected to decline.

Ontario Economy

- 2.8 Ontario was the second-worst impacted province by the COVID-19 pandemic according to TD Economics, based on May 2020 information. This resulted in the Province of Ontario lagging behind the other provinces in the early stages of recovery.
- 2.9 Ontario experienced the steepest decline in home sales since the onset of the pandemic. It is expected that the population growth in Ontario will slow in the near term, which will keep home sales depressed. Home sales, particularly new home developments, are a key factor in the tax assessment base in Clarington; a decreased demand on new home growth could have an impact on our tax assessment growth for several years.
- 2.10 TD Economics is predicting real GDP to decrease by 6.2 per cent in 2020 with a rebound in 2021 of 5.1 per cent. Similarly, unemployment is expected to decline from 9.3 per cent in 2020 to 7.3 per cent in 2021.
- 2.11 In its March 2020 Provincial and Economic Update, the Province of Ontario expected real GDP growth of 0.0 per cent in 2020 with 2.0 per cent growth in real GDP in 2021. This was at the beginning of the pandemic, March 25, 2020 and is likely underestimating the impact on the economy in 2020.

Changes to *Development Charges Act* and *Planning Act*

- 2.12 The *More Homes, More Choice Act, 2019* received royal assent on June 6, 2019. The Act was amended by the *Plan to Build Ontario Together Act* which received royal assent in December 2019. These two pieces of legislation were proclaimed in late December 2019 and Regulation 454/19 came into force on January 1, 2020.
- 2.13 The changes which came into effect on January 1, 2020 have resulted in the deferral of DC payments for certain qualifying types of development and the freezing of rates under certain conditions.
- 2.14 The *COVID-19 Municipal Economic Recovery Act, 2019* (Bill 197), received royal assent on July 21, 2020. This Act changes the *Development Charges Act* and the *Planning Act*. This legislation changes some of the legislation which was included in the *More Homes, More Choice Act* and the *Plan to Build Ontario Together Act* which had not yet been proclaimed.
- 2.15 Bill 197 improves the ability of municipalities, in general, to fund growth-related infrastructure through growth. It has also extended the time for implementation to ensure that municipalities can adjust to the changes in legislation while dealing with COVID-19 recovery.
- 2.16 The following table highlights the changes under Bill 197 (adapted from Region of Durham Report #2020-Info-73):

Area	Changes to the Development Charges Act	Impact on Clarington
Eligible services	Bill 197 expands eligible services to include: <ul style="list-style-type: none"> a. Childcare and early years programs; b. Housing services; c. Services related to proceedings under the Provincial Offences Act; d. Services related to emergency preparedness; 	Municipal parking and cemeteries are not included as eligible services. Most of the expanded services are not provided by the Municipality. There is the ability to include Municipal Law Enforcement as it is related to proceedings under the POA, however the scope may be restricted.

Area	Changes to the Development Charges Act	Impact on Clarington
	e. Services related to airports (Region of Waterloo only).	It is unclear what type of growth related emergency preparedness capital would qualify. Emergency Services (fire, police, paramedics) are already eligible services.
Ten per cent statutory reduction	Bill 197 eliminates the mandatory ten per cent reduction. Other reductions such as service caps and benefits to existing still remain.	Improves the ability of the Municipality to collect for eligible services that had been subject to the ten per cent deduction.

Area	Changes to Community Benefits Charges (CBC) and Parkland Dedication	Impact on Clarington
Eligibility criteria	Only lower and single tier municipalities may pass a CBC by-law. A CBC may only be charged on residential buildings which are at least five storeys and ten residential units. Municipalities may use CBCs and DCs to fund eligible services but may not use both on the same project.	The Municipality has two years after proclamation to pass a CBC by-law. Services like cemeteries and parking may be eligible under this legislation; however, the number of eligible developments which will meet the criteria are nominal and the cost of administering the charge may outweigh the benefits.

Area	Changes to Community Benefits Charges (CBC) and Parkland Dedication	Impact on Clarington
Parkland dedication	Bill 197 maintains the ability of municipalities to impose the alternative rate, through by-law to acquire land for parks or cash-in-lieu	Existing by-law may stay in force for two years after Bill 197 is proclaimed

- 2.17 The impact on the Municipality's budget will be an increased number of growth-related capital projects being eligible for development charges, subject to other legislated restrictions.
- 2.18 The restrictions with the Community Benefits Charge will result in this revenue tool likely not being a viable alternative for the Municipality. The Municipality of Clarington has very few historical developments and planned upcoming developments that would have both six storeys and ten residential units. The only development in the past five years is the development in Newcastle which is almost complete. The CBC is still only available for growth-related capital costs, however with the limited developments that are expected that could be eligible it is likely not worth the administrative costs of going through the creation of a study, public meetings, by-law and then administration of the charge.

3. Budget Calendar

Overview

- 3.1 The budget sets spending guidelines and priorities for the Municipality's operating year of January 1 to December 31. It is beneficial to pass the budget early in the year to allow staff sufficient time to complete the capital plan and adjusting operating priorities.
- 3.2 Historically, the Municipality has passed its budget between late January and mid March. The 2019 budget was presented to GGC on February 19, 2019, this was later than January 29, 2018 in the prior budget year.

2021 Key Dates

- 3.3 In September 2019, Council amended the Budget Policy to include that the budget ratification shall be targeted for the second Council meeting of any given year.

3.4 Based on the above target date, the 2021 budget calendar is as follows:

Date	Event/Meeting
October 16, 2020	2021 operating and capital budget due from departments
October 30, 2020	2022 to 2025 operating and capital forecasts due from departments
November 9 to 20, 2021	Department Head Meetings with Treasurer and CAO
January 29, 2021	Budget Presentation (morning)
January 29, 2021	Special GGC Meeting – External Agencies (afternoon)
February 1, 2021	Special GGC Meeting – Budget Deliberations
February 8, 2021	Council Meeting – Budget Ratification

3.5 This year, the budget workshop is proposed to be eliminated with a detailed presentation (similar to the budget workshop presentation) being held the morning of the external agencies day. This recommendation is to streamline the presentations and ensure that the information presented to Council is representative of the final draft budget.

4. Target Municipal Levy Increase

Range Per Budget Policy

- 4.1 The Budget Policy outlined a range for tax levy increases based on a combination of the Consumer Price Index (CPI) and asset management requirements.
- 4.2 The low end of the range is set at 75 per cent of the CPI value plus 1.5 per cent as indicated in the asset management plan.
- 4.3 The high end of the range is set at 125 per cent of the CPI value plus 2.0 per cent as indicated in the asset management plan.

- 4.4 The July 2020 all items CPI was 0.00 per cent for Ontario. The following table outlines the Municipal Tax Levy increase range:

Component	Low Range	High Range
Consumer Price Index	0.00%	0.00%
Asset Management	1.50%	2.00%
Total	1.50%	2.00%

- 4.5 Based on the preceding chart, the only increase would be for capital asset management with a range of 1.50 per cent to 2.00 per cent This would place significant pressure on the operating budget for 2021 given the anticipated reductions in user fee revenue from Community Services, increased costs of cleaning and personal protective equipment and normal inflationary pressures that are not reflected in a CPI calculation.

Alternative Calculations

- 4.6 Based on the economic forecasts for 2021 and the indisputable impact that the COVID-19 pandemic has had on the first seven months of 2020, the CPI on July 31, 2020, is not a reasonable indicator of the cost of living impact for the 2021 budget. CPI is not a true reflection of the costs of the Municipality as it is impacted by consumer goods, food and other items that are not typically purchased by municipalities.
- 4.7 The annual building construction price index for the Toronto area (which does not include the Municipality of Clarington in its catchment) had a June 30, 2019 to June 30, 2020 change of 1.8 per cent. The Ottawa-Gatineau figure was 4.5 per cent. The use of a building construction index could be considered a more reasonable indicator of inflationary pressures for the Municipality.
- 4.8 Some municipalities utilize a Municipal Price Index (MPI) as their inflationary index. An MPI is determined by each municipality, there isn't a Statistics Canada index, based on their specific mix of goods and services purchased by the municipality. A drawback to this method is that it is not publicly available and requires staff to calculate the index manually. The City of Toronto has created a MPI calculation framework, for the years 2016 and 2017 the MPI was higher than CPI by 0.7 to 1.0 per cent.

Recommended Target

- 4.9 Staff recommend that the impacts of the pandemic necessitate a departure from the approved budget policy as there has been an extraordinary event that has depressed CPI in 2020 and will likely not be reflective of the inflationary pressures that the Municipality will see in 2021.
- 4.10 Staff are recommending that the inflationary factor for the determination of the budget target be based on building construction price index of 1.8 per cent. Staff strongly recommend that the asset management factor of 1.5 per cent to 2.00 per cent be maintained this year as it will ensure that necessary capital investments can be undertaken in future years, capital investment is also a strong economic stimulus that will help the local economy in the post pandemic recovery.
- 4.11 The target be the mid-point of the range, this would indicate a target of 3.55 per cent and would include 1.75 per cent specifically to capital related costs.
- 4.12 Based on the 2020 municipal levy of \$62,747,374, the target would provide approximately \$1.2 million for operating expenses (including transfers to reserves and reserve funds, and debt servicing payments) and \$1.1 million for capital expenses; this would be in addition to new growth in assessment (NOT market growth which does not have an effect on the tax levy).
- 4.13 The Budget Policy also outlines that external agencies are limited to an increase of 150 per cent of the CPI. Therefore, for the 2021 taxation year, external agencies are capped at a maximum 0.00 per cent increase per the policy. Staff would recommend that 1.8 per cent be used for external agencies.

5. Key Assumptions for 2021

Levels of Service

- 5.1 The budget will be prepared to assume the same levels of service from the 2020 fiscal year. Any proposed changes to non-mandated levels of service, either decreases or increases, will be separately identified and provided as a decision item for Council.
- 5.2 Several services, such as winter control, are mandated by the Province of Ontario. Changes to these regulations may result in mandatory changes to levels of service. As these are mandated, any changes in required levels of service will be included in the budget, with the impact quantified for Council.
- 5.3 During the 2019 budget deliberations Council expressed concerns regarding the level of service for playground equipment. Currently, annual funding allows for two of the 62 playgrounds to be replaced each year; this represents a lifespan of approximately 30

years. If Council would like to see a change in this level of service, it will necessitate changing the funding levels towards parks.

- 5.4 Changes to service levels, if directed by Council, can be taken into account during the preparation of the draft budget. This would allow for a more complete picture when prioritizing projects to meet the budget target.

COVID-19 Impact

- 5.5 The largest anticipated impact to the operations of the Municipality related to COVID-19 will be to recreation services. This is the area where social distancing, cleaning and gathering limitations will have the greatest impact.
- 5.6 The 2021 budget will be assuming a 50 per cent decrease in revenue as a result of limitations in class sizes and capacity for walk-in events. This does not necessarily result in a reduction in expenses as there may not be corresponding staff reductions. For example a class that could have 10 students to 1 teacher may now be limited to 5 students, resulting in a reduction of revenue but no corresponding cost savings.
- 5.7 Personal protective equipment and cleaning supplies are anticipated to increase across the organization in 2021 as a result of heightened cleaning to reduce potential spread of the virus.
- 5.8 Staff continue to look at alternative delivery models, such as online meetings, for services to reduce the cost impact to the Municipality while maintaining service levels.
- 5.9 The Safe Restart Agreement funding announced on August 12, 2020 by the Province of Ontario provides funding which can be used to offset COVID-19 expenses or pressures. Funding is anticipated to be received in September/October 2020 and unspent/unallocated funds must be kept in a reserve by the Municipality and may be utilized in 2021. A second phase of this funding will be available and will be application based, the criteria for this application based funding is not available at the date of this report.

User Fee Revenue

- 5.10 A consequence of the COVID-19 pandemic is that it has highlighted the level of tax support to specific programs and services provided by the Municipality. Many municipalities have a user fee policy which outlines how user fees are determined and to what extent tax subsidization should occur. Staff recommend that the Municipality develops a policy for the calculation and determination of user fees and reviews the current user fee structure to ensure that it is reasonable.

6. Citizen Engagement Activities

Education and Feedback Sessions

- 6.1 For the 2018 and 2019 budget preparations the Municipality of Clarington conducted an online budget survey to solicit feedback from residents on areas which they felt should have lower, similar or higher levels of funding.
- 6.2 In 2019, fewer than 140 responses were received despite the survey being on the Municipality's website for almost six weeks and advertised through social media platforms.
- 6.3 While it is recognized that online surveys provide easy access for residents, uptake was minimal from residents which may be a result of technological and demographical barriers.
- 6.4 To provide an alternative means of engagement, as well as providing an opportunity for public education of the budget process, a series of "Coffee Houses" were held in 2019. These were sparsely attended and given the current pandemic it is felt that in person meetings are not efficient or advised at this time.
- 6.5 Staff are looking at options for either an online presentation that could be viewed by members of the public or an interactive online "town hall".
- 6.6 Members of the public, as well as Members of Council, are also encouraged to contact the Finance Department if they have any questions regarding the budget process, dates, and impacts.

Participatory Budgeting

- 6.7 Participatory budgeting is a process in which community members decide how to spend part of a public budget. It started in Porto Alegre, Brazil in 1989, and recently the City of Toronto piloted a participatory budget project from 2015 to 2017.
- 6.8 Participatory budgeting is a process where residents propose and vote on community investment projects, funded through a pre-determined portion of the municipal budget. The Toronto pilot project included \$150,000 in each of the three wards in the first year and \$250,000 in each ward for 2016 and 2017. The three-year pilot funded 37 projects for a total of \$1,870,000, with almost 1,700 residents casting votes for the projects.
- 6.9 As a means to engage the public in the budget process, it is suggested that the Municipality explore a participatory budget program throughout the Municipality. It is suggested that a pilot program of \$100,000, divided into \$25,000 per ward, be included

in the 2021 budget for residents to have their voice in small capital projects throughout the Municipality.

- 6.10 As part of this process, the public would highlight projects and then vote for those projects that they want to be funded through the program.

7. Concurrence

Not Applicable.

8. Conclusion

It is respectfully recommended that the target for 2021 be set, that an inflationary factor that is forward looking towards the recovery period be used, and that the other recommendations within the report be approved.

Staff Contact: Trevor Pinn, Director of Finance/Treasurer, 905-623-3379 ext 2602,
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Attachments:

Not Applicable

Interested Parties:

There are no interested parties to be notified of Council's decision.