



Staff Report

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Report To:	Joint Committees		
Date of Meeting:	January 31, 2022	Report Number:	FSD-008-22
Submitted By:	Trevor Pinn, Director of Financial Services/Treasurer		
Reviewed By:	Andrew C. Allison, CAO	Resolution#:	GG-035-22
File Number:	[If applicable, enter File Number]	By-law Number:	
Report Subject:	2022 Operating and Capital Budgets		

Recommendations:

1. That Report FSD-008-22 and any related communication items, be received;
2. That Council approves the 2022 Operating and Capital Budgets, including “external agencies” as outlined in the 2022 Draft Budget Book, at an estimated tax levy impact of 3.74 per cent, exclusive of tax policy impacts, as directed in FSD-008-22.
3. That the 2022 Draft Budget Book be amended to reflect the required tax levy request from the Historic Downtown Bowmanville Business Improvement Area, and that Council approves the 2022 Budget for the Bowmanville BIA outlined in Report FSD-007-22;
4. That Staff request the 2022 budgets for the Orono BIA and the Newcastle BIA for approval at a subsequent meeting prior to the striking of the tax rates;
5. That the reserve and reserve fund contributions and any new reserve/reserve funds be approved as shown in the 2022 Draft Budget Book;
6. That the Draft Operating By-law be amended to increase Wages Temp FT (\$25,000) and Wages Temp PT (\$50,000) in the Municipal Elections sub-department (100-19-193) with a corresponding increase in the transfer from the Municipal Elections Reserve;
7. That the financing of capital projects, as outlined in the 2022 Draft Budget Book, be approved;
8. That \$6,402,000 be added to the 2022 Capital Budget for Newcastle and Orono arena improvements with funding from a proposed debenture, per Resolution #GG-012-22

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9. That any cash flow shortfall in the Development Charges Reserve Funds be interim financed by the Municipal Capital Works Reserve Fund and General Municipal Reserve Fund, to be repaid with interest, as cash flow permits;
 10. That subject to Council approval of the Newcastle and Orono arena improvements, per GG#012-22, identified to be funded by debenture financing, that the Director of Financial Services/Treasurer be authorized to make application to the Region of Durham for the necessary debenture, such terms at the discretion of the Director of Financial Services/Treasurer;
 11. That Report FSD-008-22 be adopted by resolution in accordance with provisions of Ontario Regulation 284/09 of the *Municipal Act, 2001*;
 12. That the Director of Financial Services/Treasurer is authorized to fund projects which have been previously approved in the 2018 to 2021 budgets and not completed with funding to be from the appropriate reserve or reserve fund;
 13. That the appropriate by-laws to levy the 2022 tax requirement for Municipal, Region of Durham and Education purposes be forwarded to Council for approval, once final tax policy information is available.; and
 14. That all interested parties listed in Report FSD-008-22 and any delegations be advised of Council's decision.

Report Overview

The purpose of this report is to provide necessary information to Council in order to approve the 2022 Capital and Operating Budgets. The report includes several important components, and the Budget Book provides specific details. There are significant capital considerations for 2022 that further enhance the Municipality's capital infrastructure. The Budget is continuing to carry out the principles and objectives of these important Council priorities.

1. Background

2022 Draft Budget and Levy Impact

- 1.1 This year's "Clarington Budget 2022: Vision for the Future" was released to Council on January 18, 2022 and the Municipality's website the following week. This year's budget book takes on the same format as the 2021 budget, continuing our movement towards creating a budget document that is easier to understand and clear for stakeholders.
- 1.2 The budget looks to prioritize services and resources, as well as continuing to invest in our capital assets, as the Municipality moves forward in 2022 in the COVID-19 Pandemic. The budget assumes a reduction of service capacity and demand in certain services, primarily Community Services, as a direct result of the public health restrictions that are in place. While we are anticipating a recovery in 2022 (similar to 2021), it is unclear when certain services will return to their pre-pandemic levels. Community Services have assumed reduced revenue in the first six months of the year, gradually increasing to regular levels by the end of 2022.
- 1.3 The budget has consolidated all the accounts to reflect the current organizational structure of the Municipality following the approved corporate reorganization in 2020. Historical actual and budget information in the budget book has been realigned to the 2022 general ledger areas. Historical accounting information has not been modified; this is a presentational change only.
- 1.4 In September 2021, Council directed Staff to bring forth a budget for 2022 with a target municipal levy increase of 3.95%. Staff worked diligently to meet that target. The draft budget, including proposed new staffing, increased reserve fund transfers and maintaining service levels was reached with a 3.74% municipal levy increase.
- 1.5 The average residential property assessment for 2022 is approximately \$393,443 (2020 - \$394,000). A 1.0% increase in the tax levy would be approximately \$15.44 annually on the property tax bill on the average assessment. As a result of the proposed budget the average municipal increase is \$57.75 per year. It should be noted that in 2022 there

was no reassessment of properties, the increase in the average assessment would be related to the value of new growth.

- 1.6 A 1% increase in the levy translates into approximately \$653,685 in additional revenue to the Municipality.
- 1.7 The Region of Durham's Budget will be presented to Regional Council later this winter. It is anticipated that the impact to the Clarington taxpayer will be lower than the average Durham resident as the assessment base in the other municipalities is higher than in Clarington. It is anticipated that approximately 50% of the total property tax bill will still be related to the Region of Durham; however, at this time it cannot be confirmed.
- 1.8 To be consistent with the presentation of increase information, area treasurers agreed to also provide the blended rate for taxes. The Municipal portion of 3.74% represents a total increase of approximately 1.25%, there is 0% increase related to the education portion of the taxes, and the Region is proposing an increase of 1.23% (a target of 2.5% with an impact to 49.3% of the overall tax bill). Therefore, the blended increase is approximately, subject to change, 2.48%.
- 1.9 The above-mentioned tax increase is below the current rate of inflation. For an assessed home of \$400,000, the total tax bill would go from approximately \$4,620 to \$4,730, an increase of \$110; this assumes that the Region of Durham portion remains at 49.3% of the total tax bill.

Items for Council Consideration

- 1.10 For Council's consideration there are approximately six items that did not make the budget due to the budgetary target. Staff believe that these items will further the strategic plan priorities of the Municipality but were not included to ensure that the budget remained below the Council guideline.
- 1.11 The Newcastle Community Hall requested \$23,900 of funding above the 3.3% target; however the request is below the 2021 request which included one-time COVID funding support. If Council wishes to provide this additional funding, the Tax Rate Stabilization Reserve Fund would be an appropriate source of funding as this is a one-time request of support to offset the COVID-19 operating impacts that the Hall is facing.
- 1.12 In the fall, Staff reported on the Heritage Property Tax, at that time Council did not consider an increase to the funding support for this program. The Planning and Development Services Department continues to recommend that this funding be increased to provide additional supports for heritage properties.
- 1.13 In 2021, Council approved an increase in the contribution to the Community Services Building Refurbishment Reserve Fund for arenas of \$315,000. There was a request that

this occur for three years, the funding would be above the target and therefore it is on the Unbudgeted Needs List. It should be noted that during discussions in 2021, the funding arose from a discussion on arenas, the motion was not specific to any particular arena; Staff are seeking clarity as it has been mentioned that this would be used for debenture payments on a new facility. It would be the recommendation of the Director of Financial Services that if it is Council's intent to build into the levy funds sufficient to fund the debt payment on a new facility, that the annual contributions until that time go for the replacement of existing facilities.

- 1.14 There are three positions in Financial Services which are not included in the budget due to budgetary constraints and the fact that these positions do not have grant funding or direct cost savings attached.
- a. The Municipality continues to grow and the cost of insurance is rising for municipalities across Ontario. The addition of an Insurance and Risk Manager would provide a dedicated resource to the corporation for risk management which is currently shared by the DMIP. This position would work with departments to identify areas of risk, establish policies and procedures to mitigate risk and work with the insurance pool on claims management.
 - b. Over the past several years the use of technology within the Municipality has increased. As a result of the COVID-19 Pandemic the Municipality is providing more services online than in the past and remote working provides opportunities for Staff to be more effective and efficient. The IT Division manages several corporate wide programs and the addition of a Solutions Analyst would provide resources for software specific training as well as process efficiencies with the goal of providing higher service levels with existing resources.
 - c. The Purchasing Services Division supports centralized purchasing for all departments of the Corporation. The addition of a Buyer is required to handle the continuing high volume of bid calls. Staff currently average 43 bid calls per buyer (based on 2019 and 2020 data) which is higher than the City of Oshawa (32), Pickering (39) and Whitby (38). The addition of a Buyer would allow the Manager of Purchasing and Assistant Purchasing Manager to implement additional policies and procedures including e-procurement, green procurement, and analysis on contract management.

2. Tax Rate Stabilization

- 2.1 In the past, Clarington withdrew funds from the Rate Stabilization Reserve Fund of approximately \$800,000 to balance the budget in general. In past three budgets we have transitioned to using the funds for specific items which are non-recurring or one-time expenses.

- 2.2 In 2022, the Rate Stabilization Reserve Fund has been used to offset unusual, non-recurring or one-time expenses in an effort to stabilize the tax levy requirements.
- 2.3 To ensure the levy came in below the Council approved target and recognizing that several departments had pressures related to COVID-19 which could be decreased revenues, increased cleaning costs or other expenses, a transfer of \$150,000 for general levy stabilization is proposed.
- 2.4 Effective January 1, 2022, new environmental regulations came into effect which change the Municipality's ability to dispose of waste that is accumulated through the street sweeping process. The Public Works Department estimates this cost to be approximately \$650,000; a transfer of \$325,000 from the Tax Rate Stabilization Reserve Fund is proposed to mitigate the impact of the regulation change over two years.
- 2.5 While Community Services has budgeted for a return to service, there continues to be public health measures in place that will reduce capacity. This impact reduces the revenue earned while the cost structure remains relatively similar. For example, where in the past a swim class could have one instructor for a class of ten, there may now be restrictions in class size to five; the revenue stream is half, however the expenses are not. To mitigate this impact, a transfer of \$1,250,000 is proposed to smooth the impact of the return to operations. This is a reasonable approach since savings in 2020 and 2021 related to cost mitigation taken primarily in Community Services. It is hoped that in 2023 a return to a stable revenue level will occur.
- 2.6 A transfer of \$100,000 from the fund is also proposed to offset the costs to dispose of steel and cement at Depot 42. The rubble pile needs to be disposed of and this is a one-time cost, therefore a reasonable approach is to use the rate stabilization fund to reduce the impact.
- 2.7 While the use of the reserve fund is higher this year than in the past, it is reasonable to smooth the impact and maintain a stable tax levy. Staff continue to advocate for specific uses of the fund to smooth one-time or non-recurring costs rather than generalized use to offset the budget.

3. Tax Policy Changes

- 3.1 A long-term strategic tax policy plan was initially approved in 2002 by the Region of Durham (who has legislative authority over tax policy), that may have an impact on final tax rates. The 2021 update was presented to Regional Finance and Administration Committee in February 2021. Any tax ratio changes impact upon the relative share of the total taxes that each property class pays.
- 3.2 In 2020, the Region's tax policy report included a recommendation not to implement a reduced tax rate for the first \$50,000 of assessment on small-scale value-added

commercial activities on farms that was announced by the Province of Ontario in 2018. There is a limited impact to taxpayers (in 2020 only seven properties in all of Durham Region would qualify) while the administrative costs would be significant.

- 3.3 In November 2020, the Province announced the ability to create an optional sub-class for small businesses. In November 2021, the Region of Durham Finance Department prepared report [#2021-F-29](#) outlining the impact of this optional sub-class. The recommendation was that the sub-class not be pursued at this time. Challenges with the program design and definition of small business, administrative cost of the program compared to the relatively small reduction in taxes for small businesses and the shift of the tax burden to other property classes were identified as the key reasons not to pursue this tax class at this time.
- 3.4 As part of the 2021, Fall Economic Statement, the Province of Ontario postponed the property tax reassessment until at least 2024. Tax assessments for 2022 and 2023 will remain the same as the 2020 taxation year. This means that the current value assessment of property is based on the value of the property at January 1, 2016.
- 3.5 The impact of the reassessment cannot be determined at this time as there is no date announced. It should be noted that an increase in market value does not necessarily result in an increase in taxes; for example, if all property values increased equally the tax burden would not change. However, as residential market values appear to be increasing higher than commercial values there may be a shift in the tax burden from commercial to residential; this would be minimal as the residential tax class already accounts for approximately 90% of the weighted assessment in Clarington.

4. Staffing Requests

- 4.1 Included in the proposed budget are the following requests for new staff:
 - a. Upgrade the Customer Service Assistant Coordinator from part-time to full-time in Community Services;
 - b. Promote four Firefighters Class 1 to the rank of Captain;
 - c. Hire four Firefighters Class 5 to allow the existing Platoon Chiefs to move off the active apparatus;
 - d. Add a Training Officer is proposed to meet the existing training needs of firefighters, improve efficiency and reduce overtime;
 - e. Convert a manager position in the IT Division of Financial Services to a Solutions Analyst and a Support Technician to better reflect the IT needs of the organization.

- f. Create a Financial Analyst position, funded by the OCIF grant, in Financial Services for asset management planning and forecasting;
- g. Create an HR Associate in Legislative Services to meet the ongoing and anticipated demands of the Municipality;
- h. Increase the compliment of Municipal Law Enforcement Officer I by two to address ongoing operational needs, funded by parking revenues;
- i. Temporary Clerk II to meet the anticipated needs of the 2022 Municipal Election. In the draft binder temporary election staff were accidentally omitted, these funds are routine during every election and funded by the Municipal Election Reserve;
- j. Create a Utility Locates Technician to improve the ability to meet locate timelines, this will be funded by decreasing the contracted services; and
- k. Create a GIS and Asset Management Technologist to meet the ongoing needs for asset management and mapping in the Public Works Department.

4.2 The specific rationale provided by the departments in support of these requests are set out in the Draft Budget Book.

5. Operating Budget Commentary

- 5.1 The 2022 Draft Budget Book provides summary information for all the changes in the operating departments and sub-departments. This information was provided to ensure that Council was aware of the projected change from 2021. The book also is reflective of the changes in accounts resulting from the corporate reorganization completed in 2020 (which impacts the presentation of the 2019 and 2020 actuals).
- 5.2 Significant changes to operating includes the impact on the Community Services operations resulting from anticipated service restrictions from COVID-19. For the first half of the year, it is anticipated that capacity/demand will be about 50% of normal levels with an increase to normal demand by the end of 2022. It is hoped that many of the service reductions will return to normal in 2023.
- 5.3 We have reviewed revenue accounts and adjusted to better reflect what the Municipality estimates to be achievable. This includes an increase to investment income to better reflect the interest earned on our investments, but also includes decreases in certain programs or Planning and Development Services revenues which are anticipated to result in more revenue as a result of the approval of secondary plans and anticipated housing growth in the community.

- 5.4 In 2022, changes to environmental regulations will require a change in the process to dispose of the waste/fill from street sweeping operations. This material now needs to be shipped and disposed of in a landfill which will increase costs by approximately \$650,000; a transfer from the Tax Rate Stabilization Reserve Fund is proposed to spread the impact on the tax levy over two years.
- 5.5 The Draft Budget Book includes summary information on each department and the variance from the 2021 to 2022 budget requests.

6. Capital Budget Commentary

- 6.1 The total capital budget investment of \$23,538,900 utilizes approximately \$3.4 million of development charges, \$11.5 million of reserve funds and \$646,800 from reserves.
- 6.2 Tax levy support in 2022 to the capital budget is \$8,003,900 which is slightly lower than the 2021 tax levy support.
- 6.3 The capital budget recommendations are incorporated in the Draft Budget Book, under the section “Capital Budget” starting on page 131. A description of the project is included for each capital budget item.

7. Debt Status

- 7.1 Current projected annual debt repayment obligations for 2022 Budget purposes total \$1,987,009 (2021 - \$2,139,350) predominantly funded from development charges. Existing debentures include those issued for: Bowmanville Indoor Soccer, Green Road grade separation, Courtice branch library, the Diane Hamre Recreation Complex, as well as retrofits for the Municipal Administration Centre and Pad A of the Garnet B. Rickard Recreation Complex.
- 7.2 In 2018, two debenture projects were funded internally and will be repaid through transfers between Reserve Funds. The Garnet B. Rickard Recreation Complex parking lot refurbishment will be repaid through a portion of the annual contribution to the Parking Lot Rehabilitation Reserve Fund. The LED light retrofit will be repaid through savings in electricity and maintenance costs for streetlights.
- 7.3 In the 2020 Budget, Council approved \$4.2 million in debentures related to the design and construction of the South Bowmanville Recreation Centre. The project did not receive funding in 2020, resulting in a delay in the project as staff review financing options. General Government Committee received report [CSD-001-22](#) regarding the Future Indoor Recreation Facility at its meeting of January 10, 2022, GGC recommended to Council referring the matter of \$57.6 million for the South Bowmanville location to the 2022 budget deliberations. As this matter is still before Council, the Draft

2022 Budget did not include any capital or operating costs for this project; however, any debt issuance would be in the fall of 2022 with the first repayment occurring in 2023.

8. Municipal Grant and Sponsorship Programs

- 8.1 The Municipal Grant Program and the Municipal Sponsorship Program underwent a revision in 2021, as approved by Council in the fall of 2020. In 2022, the \$35,000 which was previously included as part of the sponsorship program has been combined with the funding for the grant program. The total program is \$99,000 in 2022, this includes \$69,500 unallocated and available for eligible community groups.
- 8.2 As hall boards and horticultural societies are ineligible for the new grant program, funding for these boards has been separately budgeted and accounts for \$29,500. Each of the three horticultural societies has been budgeted \$500 and the hall boards between \$3,000 and \$5,000 each.

9. Reserve and Reserve Fund Contributions

- 9.1 Consistent with past practice, increases in reserve and reserve fund contributions are at times deemed appropriate to bolster balances in depleting reserve funds or to begin to put aside funds for an identified need. This is an important part of our asset management strategies.
- 9.2 For 2022, reserve funds that are not funded by revenues (parking and building inspection) have no changes in the tax levy contribution.

10. External Agencies

- 10.1 The 2022 budget includes requests from external agencies, including the Clarington Public Library Museums and Archives, Visual Arts Centre, Bowmanville Older Adults Association, Community Care Durham, Newcastle Community Hall and Grandview Children's Centre. These requests have been provided in Report #FSD-007-22 for the Special General Government Committee meeting of January 28, 2022.
- 10.2 The 2022 budget guidelines adopted by Council provided for a 3.3 per cent increase cap for external agencies to be included in the budget. Two organizations have requested funding in excess of this guideline; however, one (John Howard Society) is only showing above the guideline because Staff asked them to show the cost of operations for 2022. The funds provided in 2022 will be below the guideline due to unspent funds in 2021. If Council wishes to provide the additional funding to the Newcastle Community Hall this request is included in the Unbudgeted Needs ("B list") and may be separately moved.

- 10.3 The Newcastle Community Hall is asking for additional funds to offset impacts from the COVID-19 pandemic; however, the impact is less than in 2021 when they requested an additional \$50,000.
- 11. 2022 Accrual Based Budget for PSAB per Ontario Regulation 284/09**
- 11.1 Public Sector Accounting Board annual reporting requirements for municipal Budgets require that certain accrual-based items be reported to Council in conjunction with the Budget for 2011 onwards.
- 11.2 Accrual based expenses that are excluded from the 2022 tax-based budget include post-employment benefits and amortization of capital assets. Other items to transfer to a PSAB Budget include tangible capital asset acquisitions and accounting treatment of debt principal payments.
- 11.3 There is no immediate financial impact of these PSAB additions or reductions since the tax-based budget approves necessary funds to provide municipal services for 2022, but there are longer term implications.

- 11.4 The estimated change to the accumulated surplus at the end of 2022 resulting from the above items is as follows:

PSAB Additions to the 2022 Budget

Adjustment	2022 Dollar Amount
Tangible capital asset amortization	\$21,943,590
Post-employment benefit estimate	1,043,000
Total PSAB Additions	\$22,986,590

PSAB Reductions to the 2021 Budget

Adjustment	2022 Dollar Amount
Tangible capital asset acquisitions	\$(23,538,990)
Debt principal payments	(1,775,922)
Total PSAB Reductions	\$(25,314,822)

Total PSAB Impact

Adjustment	2022 Dollar Amount
(Increase) / Decrease in Accumulated Surplus	(\$2,328,232)

12. Concurrence

Not Applicable.

13. Conclusion

It is respectfully recommended that the 2022 Operating and Capital Budgets be approved by Council.

Staff Contact: Trevor Pinn, CPA, CA, Director of Financial Service/Treasurer, 905-623-3379 ext.2602 or tpinn@clarington.net.

Attachments:

Not Applicable

Interested Parties:

The following interested parties will be notified of Council's decision:

- Community Care Durham
- The Clarington Public Library and Museums
- Bowmanville Older Adults Association
- John Howard Society of Durham
- Newcastle Community Hall
- Visual Arts Centre
- Grandview Children Centre