

# Staff Report



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To	<b>City Council</b>
Service Area	Corporate Services
Date	Tuesday, November 17, 2020
Subject	<b>2021 City Budget</b>

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## Recommendation

That the following recommendations be referred to the December 1, 2020 City Council meeting:

1. That the 2021 operating budget be approved at a gross expenditure budget of \$463,387,040 with a property tax and payment-in-lieu of taxes levy requirement of \$267,774,464 or 3.52 per cent over the 2020 levy inclusive of the following:
  - a. 2021 fees, rates and charges guide posted at [Guelph.ca](http://Guelph.ca) including water and wastewater fees and services, stormwater fees, building permit fees, parking fees, business license fees, and general user fees, and inclusive of:
    - i. A stormwater base charge of \$6.40 per month equivalent residential unit or 10.3 per cent increase over 2020
    - ii. A water and wastewater basic service charge equivalent to 2020 rates
    - iii. A water volume charge of \$1.82 per cubic meter, or 2.80 per cent increase over 2020
    - iv. A wastewater volume charge of \$1.94 per cubic meter or 1.0 per cent increase over 2020
  - b. City service budget requests totaling an increased net levy requirement of \$1,359,400 or 0.53 per cent and six new positions
  - c. local boards and shared services budget requirement, net of proportionate share of assessment growth, totaling an increased net levy requirement of \$3,077,043 or 1.20 per cent
  - d. total transfers to/from Reserve and Reserve Funds
2. That the Guelph General Hospital levy in the amount of \$750,000 be maintained for the second of six years as approved on December 3, 2019, resulting in no net levy change
3. That the 2022–2024 operating budget forecast be received for information
4. That the 2021 Capital Budget in the gross expenditure amount of \$263,170,406 and the required operating budget resulting from these projects totaling \$9,455,897 be approved inclusive of the following:

- a. funding transfers from capital reserve funds and other sources including partnerships and grants
    - b. planned use of \$101.1 million of debt as a financing strategy
  5. That the 2022-2030 Capital Forecast in the gross amount of \$1,654,571,109, be received for information with the following implications:
    - a. Operating budget net increase totaling \$27,221,403
    - b. An unfunded City Building Reserve Fund position of \$42.4 million by 2030
    - c. A debt forecast that fully leverages the City's available capacity in the nine-year period
  6. That the Downtown Guelph Business Association budget with gross expenditures of \$698,780 and a total levy of \$660,000 be approved
  7. That all carbon credit revenues generated by the City be directed towards the 100RE Reserve Fund as a source of funding for the implementation of the 100RE strategy
  8. That further to the November 10, 2020 Transit Strategy and Operations Campus Workshop:
    - a. That staff be directed to develop an affordable long-term Transit Strategy of not more than one per cent annual net levy increase inclusive of operating and capital funding and addresses COVID ridership and revenue loss impacts
    - b. That staff be directed to renegotiate the Investing in Canada Infrastructure Program Transit Stream project priorities with the primary focus of electrification of Transit fleet and related infrastructure.
    - c. That staff be directed to develop a comprehensive performance metric framework that considers the varying services and routes within Guelph Transit.
  9. That staff be directed to develop options to address the City Building Reserve Fund projected deficit position and report back to Council in advance of the 2022-2031 Capital Budget and Forecast
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## **Executive Summary**

### **Purpose of Report**

The purpose of this report is to present an overview of the 2021 Budget, inclusive of all departments, local boards and shared services. New this year, staff has developed an operating budget forecast that includes all known and planned impacts from the Strategic Plan initiatives from 2022 through 2024. Further, the capital forecast continues to be presented with a nine-year outlook from 2022 to 2030.

## Key Findings

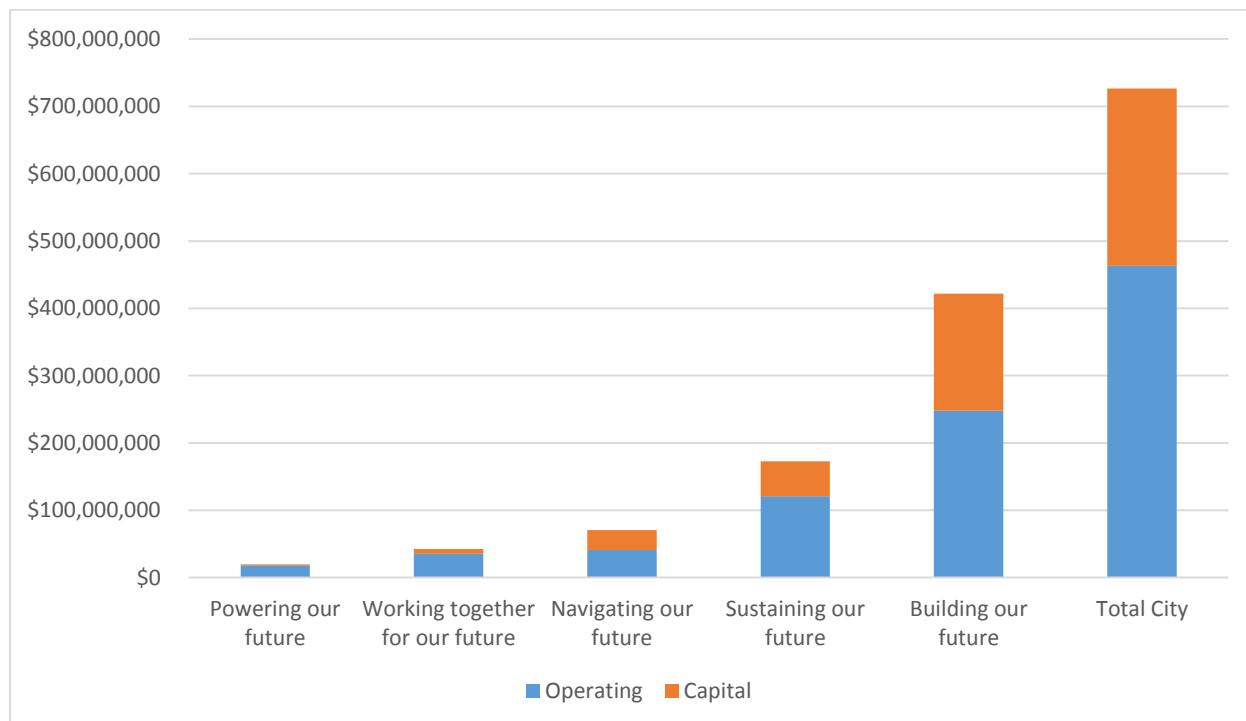
The 2021 budget is a reflection of the resources required to implement the Strategic Plan priorities and show improvement on the Council-approved performance metrics. The budget is the tool for setting the pace of achieving these goals through demonstration of the operating budget financial impact over a four-year period.

Overriding themes have emerged from the development of the 2021 budget and will be reinforced through all aspects of the presentation and documents:

- long-term financial planning will provide the foundation to inform data driven decisions and maintain affordability
- the COVID Pandemic recovery and the uncertain future with changing business needs
- digital transformation to become the modern and customer-centric City our community expects
- continuity of service and health and safety of the community depends on our ability to maintain our infrastructure assets
- Guelph is growing and our financial plans need deliberate matching of growth costs and revenues

The total 2021 operating expenditure budget is \$463.4 million and capital expenditure budget is \$263.2 million. The total expenditure budgets by Strategic Priority are as follows:

Figure 1: 2021 Operating and Capital Expenditure



These expenditures translate into a 2021 proposed net tax levy increase of 3.52 per cent which is computed net of one per cent estimated taxation assessment growth as shown in Table 1. The total City department net levy investment is 1.0% and includes the proposed budget requests, inflationary pressures and impacts from prior approved capital projects. This, in addition to the capital financing

requirement of 1.32% net levy increase, which includes capital investment for Guelph Police Services and Guelph Public Library, totals the City's proposed 2.32% increase net of assessment growth.

Table 1: City Departments and Local Boards Levy Impact

Investment	City	Local Boards	Total
Department Net Investment	4,289,354	3,914,793	8,204,147
Assessment Growth	(1,724,250)	(837,750)	(2,562,000)
<b>Net Impact Before Capital Financing</b>	<b>1.00%</b>	<b>1.20%</b>	<b>2.20%</b>
Capital Financing	3,377,693	0	3,377,693
<b>Capital Financing Net Impact</b>	<b>1.32%</b>	<b>0.0%</b>	<b>1.32%</b>
<b>Total Net Impact</b>	<b>2.32%</b>	<b>1.20%</b>	<b>3.52%</b>

From a rate perspective as shown in Table 2, this budget would require a 2021 rate increase at a combined two per cent impact and each individual rate remains competitive within the comparator municipal groups.

Table 2 Average residential bill impacts of proposed rate change

	2020	2021	Change
Water	404.91	413.40	0.05
Wastewater	453.12	456.30	0.02
Stormwater	69.60	76.80	0.60
<b>Total</b>	<b>927.63</b>	<b>946.50</b>	<b>18.87 or 2.0%</b>

## Financial Implications

The operating budget for the first-time has a fully built-out four-year budget and forecast to provide Council and the community a transparent and accountable demonstration of the financial impacts of service decisions and plans beyond one year. The value in this long-term financial planning is immense as it enables decisions to be made understanding the actual financial impact on the community.

The 2021-2024 budget and forecast shows the planned tax levy and rate impact of implementing the initiatives of the Strategic Plan as follows:

Forecast	2021	2022	2023	2024
Tax levy	3.52%	5.99%	5.99%	5.54%

Forecast	2021	2022	2023	2024
User rate	2.0%	2.6%	3.0%	3.0%

As this is the first time the City has been able to develop this type of forecast, the resulting projected financial impacts may give cause to reconsider the pace of investment. The budget is the tool for Council to set the pace of achieving the goals of the Strategic Plan at the affordability level that they desire.

The forecast period of the budget includes additional full-time equivalents (FTEs) as a result of a growing city, changing legislation and emerging areas of City service delivery identified in the Strategic Plan like the Transportation Emerging Technology Office. It also includes the operating impacts from capital projects planned through this time period.

Due to the affordability concerns of the forecast period, staff has recommended a special workshop on November 10, 2020 to review in detail the Transit Growth Strategy. Transit growth is one of the most significant financial investments in the forecasted 2022 to 2024 period and beyond.

While the forecasted tax levy impacts are for receipt only at this time, Council should reference these figures throughout 2021 as they consider in-year financial decisions.

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## Report

### Budget Overview

The 2021 budget is a reflection of the resources required to implement the [Strategic Plan](#) priorities and show improvement on the Council-approved performance metrics. The budget is the tool for setting the pace of achieving these goals through demonstration of the operating budget financial impact over a four-year period. There are many [new features](#) of the budget presentation this year that serve to make the budget process more accessible, easier to understand, and better aligned for outcome-based decisions. The multi-year operating forecast will enhance transparency in the financial impacts of Council decisions and elevate accountability in achieving the initiatives of the Strategic Plan.

Overriding themes have emerged from the development of the 2021 budget and will be reinforced through all aspects of the presentation and documents.

### Strong financial policy guides our fiscal health

Long-term financial planning will provide the foundation to inform data-driven decisions and maintain tax and rate affordability while still achieving our goals. Council has approved two indicators to measure the success of the City's fiscal health being:

- the City's third-party credit rating of AA+
- the tax and rate burden as a percentage of average household income

In February of this year, Council received and approved the [City's Long-term Financial Framework](#) which provides a road map of integration for the City's core financial policies in order to enhance financial sustainability, increase financial flexibility, and reduce financial vulnerability. The City's Debt Management Policy

was updated in 2020, and looking forward to 2021, the focus will be on the development of a Corporate Revenue Policy including a user fee subsidization review and considering the implementation of the Prudent Investor Standard for investment portfolio management.

## **The COVID-19 Pandemic**

The 2021 budget year is full of uncertainty as the City and the community continue to manage through the COVID-19 Pandemic. The impacts of the Pandemic are pervasive to the City's businesses and will require us to look at how we deliver services, assess the permanency of social and legislative impacts, and plan for an extended recovery period that may take as long as five years. For this reason, the 2021 budget does not propose budget changes for COVID-19, except for the decision previously approved by Council related to Transit Services. 2021 is a year of review and assessing what impacts of COVID are permanent and require budget adjustments in a future year. Staff will report back on these reviews and the changes that will be required.

There are known revenue and costs variances that will occur through 2021 and staff are committed to managing these impacts through the variance process by shifting work plan priorities, and temporary reductions in service to offset the revenue loss. The \$12 million in Safe Restart Emergency funding including the special transit stream received from the federal and provincial governments in September, mitigated the need to use City contingency reserves in 2020. For this reason, the 2021 budget considers grant programs funded from these reserves to help the tourism and hospitality sectors as well as non-profit organizations rebound from the impacts of the Pandemic.

Please visit the budget website for information about how the City budget is responding to [COVID-19](#).

## **Digital transformation and continuous improvement**

Digital transformation means making strategic investments over time that create better value for citizens and business, enables more efficient service delivery, supports innovation and ultimately helps us become the modern and customer-centric City our community expects.

Please visit the budget website for more detailed information about how the City budget is supporting the transformation of service delivery through [digital innovation](#).

## **Asset Management Plan and Infrastructure Renewal Strategy**

On November 2, 2020, Council was presented the results of the updated [Asset Management Plan](#) that confirmed that the City's financial strategies for long-term infrastructure renewal have been successful and should remain in place to continue our journey to reach sustainable funding. Continuity of service and health and safety of the community depends on our ability to maintain our infrastructure assets.

Please visit the budget website for more detailed information about the [City's Long-term Infrastructure Renewal Strategy](#).

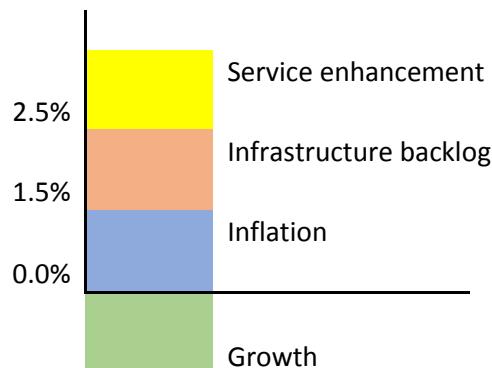
## Guelph is growing quickly

Guelph is growing and our financial plans need deliberate matching of growth costs and revenues to demonstrate that we are increasing service delivery and building infrastructure at an appropriate rate. The City has dedicated revenue streams that help fund both the operating and capital costs of growth including development charges, building and planning application fees and growth-related property tax assessment revenues. This is a developing area of focus for the City's financial modeling as the emphasis on growth becomes central to Council discussions in 2021 and 2022 with the updates to the Office Plan, the Municipal Comprehensive Review and various service Master Plans.

Please visit the budget website for more detailed information about the [City's Long-term Growth Funding Strategy](#) and how the budget and forecast incorporates planning for growth. Based on this analysis, the City is allowing approximately \$356,000 of net growth revenue to be used against other budget pressures in 2021. Staff is comfortable with this position as the local boards and agencies have a net growth deficit ending position.

## Building the budget

Internal budget guidance is developed by two cross-functional internal steering committees that provide department heads with direction on base assumptions in the budget preparation. As the overriding principle, the objective is to execute the initiatives as identified in the Strategic Plan. However, there are also base everyday service obligations that the City must continue to deliver.



These base obligations come in the form of [inflationary pressures](#) for compensation, contractual commitments, insurance, facility and fleet maintenance requirements, and debenture payments. The City relies on people to deliver the services that the community relies on every day and many of these people belong to collective bargaining unions with whom Council has entered into multi-year compensation obligations. The City refers to funded positions as FTEs, and this is the largest inflationary pressure in the budget. A full summary of [approved and projected FTEs](#) are included in the budget materials.

The municipality then needs to consider a funding strategy to maintain and replace their infrastructure asset inventory which for the City, is more than \$4.39 billion or approximately \$31,000 per resident. As part of the rate and tax long-term financial models, there is a funding increase to address the gap in funding for infrastructure renewal sustainability.

Growth is also a cost pressure as outlined earlier in this report and it is important to manage the cost of growth with the revenues associated with growth over time. If managed effectively over the long-term, growth costs should be recoverable from growth revenues, resulting in a net zero impact on taxes or rates. This is a developing financial practice within the City.

Finally, we have the pressure of adding new service delivery requirements either voluntarily or due to legislative changes. Some of these may be a result of Council choice in order to implement the Strategic Plan, but there are always other factors outside the City's control that also contribute to these expanding costs.

It is unreasonable to assume efficiencies in an organization can completely offset the inflationary pressures in any given year, especially when the City is growing and we are trying to meet the growth demands. The City is developing a culture of [continuous improvement](#) and looking at ways to eliminate paper and manual processes, increase standardization in processes and becoming more digital. These are driving efficiencies in the base budget and will be reflected each year based on bettering ability to measure and capture these improvements and creation of capacity. Examples in 2021 budget include:

- Continuing to implement energy efficiency initiatives that mitigate utility cost increases – approximately \$337 thousand was mitigated in addition to projected \$997 thousand expected savings from the completion of the streetlight LED replacement. As a reminder, the streetlight savings is being used to repay the capital funding required to execute that project.
- Implementing an automated Council agenda management system reducing the cost of paper, printing costs, and staff time involved in this process.
- Implementing a digital meeting functionality to reduce mileage costs and staff time commuting between facilities.
- Renegotiating the cost sharing agreement with Guelph-Eramosa for Fire Service provision.
- Enhancing cost controls structures for corporate cell phone usage and position changes.

[User fees and other revenues](#) are an important ingredient in recovering expenses in some business lines as well. In some cases, it's appropriate to have a user-pay operating model with taxation being considered to help subsidize the service where it is appropriate.

There is often political pressure, especially in a difficult economic climate, to reduce revenue increases to zero (rates or taxes). While in the short-term, if budget reductions are achieved through one-time measures like reserve transfers, this may offer political benefit, in the long-term, it often results in creating financial havoc. Staff would recommend Council take a very balanced approach to considering budget reductions to ensure base budget service delivery, including maintaining and operating our current assets is not being put at risk in order to fund service enhancements.

## **Operating Budget and Forecast**

The operating budget for the first time has a fully built-out four-year budget and forecast to provide Council and the community a transparent and accountable demonstration of the financial impacts of service decisions and plans beyond one year.

The 2021-2024 budget and forecast show that the planned tax levy and rate impact of service delivery is as follows:

Forecast	2021	2022	2023	2024
Tax levy	3.52%	5.99%	5.99%	5.54%
User rate	2.0%	2.6%	3.0%	3.0%

## 2021 Operating Budget

The operating budget and forecast try to balance the various pressures a City must consider on an annual basis including inflation, infrastructure renewal backlog, growth and service enhancements. These costs have been offset with new and growing revenues, efficiencies and service reductions. The City's proposed 2021 tax levy increase are included in Table 3:

Table 3: City Budget Drivers excluding Local Boards and Agencies

Budget driver	Budget change \$	Tax levy impact
Base budget/Inflationary	3,475,197	1.36%
Operating impact from capital	1,049,757	0.41%
Service reduction	(1,595,000)	(0.62%)
Capital financing	3,377,693	1.32%
Budget requests	1,359,400	0.53%
<b>Sub-Total</b>	<b>7,667,047</b>	<b>2.99%</b>
Assessment growth revenue	(1,724,250)	(0.67%)
<b>Total requested</b>	<b>5,942,797</b>	<b>2.32%</b>

This year's budget includes six new position requests; four paramedics from a Council-approved Master Plan and two positions that have become a priority in light of the COVID response. The 2021 budget also has proposed one-time investment to support the COVID recovery process for non-profit organizations and the tourism and hospitality sector. A total list of the [2021 operating budget requests](#) is available in the budget documents.

It also includes the operating impacts from capital projects approved in 2019 and 2020 that will be operational next year and proposed increases to address the infrastructure renewal backlog, as well as other capital financing contributions for Baker District and the [100RE Strategy](#). Further, with Council's approval of the South End Community Centre to open in 2024, staff have started to phase-in one quarter of this \$2.4 million operating impact in 2021.

These budget investment proposals are offset by the Council-approved transit service budget reduction through a deferral of the new routes originally approved as part of the 2020 budget. This shows the City's commitment to address the financial impacts of COVID and the significant decline in transit ridership that will likely persist throughout 2021. Transit is looking at innovative microtransit service options that should further help mitigate the lost revenues and lower ridership being experienced.

In addition to the City's budget funded by property taxes are the budgets from the following local boards and agencies and contribute to 1.20 per cent of tax levy increase, net of their proportionate share of assessment growth, in 2021:

- Guelph Police Services
- Guelph Public Library
- The Elliott Community – Long-term Care
- Social Services – delivered by The County of Wellington
- Wellington-Dufferin-Guelph Public Health

Council does not have direct oversight of these boards and agencies, however is responsible for funding, in whole or in part, their operations. In addition to these agencies, the City's \$750,000 multi-year commitment to the Guelph General Hospital remains for the second of six years.

Further, the City's share of the Grand River Conservation Authority budget is funded through the Water and Wastewater Services user rates. The Downtown Guelph Business Association's budget is also included for Council approval however, this a special levy that is applied to downtown commercial properties in addition to the City's general taxation requirement.

## **2022-2024 Operating Forecast**

For the first time, the City is presenting a detailed three-year operating forecast which includes ongoing financial obligations and proposals for implementing the Strategic Plan. [Long-term financial planning](#) provides Council with the rate and levy impacts of multi-year capital budget and service delivery decisions. For example, Council has approved the construction Baker District and the South End Community Centre both which come with an operating budget requirement expected in 2024. Further, there is also a capital funding requirement for the Library that Council approved to be phased-in starting in 2021.

The forecast period of the budget also includes additional FTEs as a result of a growing city, changing legislation and emerging areas of City service delivery identified in the Strategic Plan like the Transportation Emerging Technology Office.

As this is the first time the City has been able to develop this type of forecast, the resulting projected tax levy impact may give cause for concern. One of the recently approved 'measurements of success' of the Strategic Plan is the combined rate and tax burden as a per cent of average annual income. Staff are concerned that the forecasted tax levy increase will not be affordable to the community and for that reason, has recommended a special workshop on November 10, 2020 to review in detail the Transit Growth Strategy. Transit growth is one of the most significant financial investments in the forecasted 2022 to 2024 period and beyond.

While the forecasted tax levy impacts are for receipt only at this time, Council can and should reference these figures throughout 2021 as they consider in-year

financial decisions. The budget sets the pace to achieving the goals of the Strategic Plan at the affordability level that is determined by Council.

## **Capital Budget and Forecast**

The 2021 Capital Budget totals \$263.17 million and includes the South End Community Centre and the Main Branch Library approved on October 7, 2020. The 2022-2030 Capital Forecast totals \$1,654.57 million and primarily is focused on infrastructure renewal and building infrastructure to support our growing City. The operating budget impact from 2021 proposed projects totals \$9.46 million which will be phased-in over the 2022 to 2030 period.

The operating impacts are from the following projects or groups of projects are included in Table 4.

Table 4 - Highlights of operating impacts from 2021 recommended capital spending

<b>Project</b>	<b>Net operating budget</b>	<b>Description</b>
South End Community Centre	\$2.4 million	Operating costs for the new facility including compensation, materials, utilities, and programming costs.
Baker District public realm (library and open space)	\$3.5 million	Operating costs for the new facility and open space including compensation, materials, utilities, and programming costs.
Corporate technology and innovation	\$1.4 million	Staffing, software licensing and hardware.
Urban Forest Management Plan (UFMP) Implementation	\$0.8 million	Includes additional staffing and operating expenses related to execution of initiatives identified in the UFMP.
Cycling Network	\$0.4 million	Costs related to snow and street sweeping equipment including staffing, operating and maintenance.
Transit System	\$0.3 million	Maintenance and repairs of new bus shelters and costs related to technology including software maintenance and rental and maintenance charges for cellular units.

The Capital Budget and Forecast is as comprehensive as possible to include technology investment, significant facility replacement and road reconstruction

funded by long-term reserve fund and debt financing plans. The City has been developing integrated long-term financial strategies over the past three years that serve as the foundation of the capital plan; staff continue to refine and improve these strategies annually.

Two notable milestones reached in the 2021 capital budget development process were the identification of operating budget impacts for all projects in the entire 10-year plan and enhancing the capital budget project detail. As a recommendation from the internal audit of Project Management, staff are required to increase the level of detail at which capital projects are budgeted. Both of these achievements demonstrate the City's dedication to continuous improvement and strengthening financial management.

The City's [debt strategy](#) maintains total debt within the Council-approved Debt Management Policy limitations for the ten-year period. Debt is an important capital financing tool to align the cost of significant long-lived infrastructure with those who will receive the benefit of the service it provides. With the approval of the two significant facility projects as mentioned above, the City will be able to issue debt in 2021 and leverage the current low-cost debt market to benefit the City for twenty years.

The City's [Reserves and Reserve Funds](#) are being managed in accordance with the City's General Reserve and Reserve Fund Policy and includes more reliance on informal inter-fund borrowing than in past years. The unfunded [City Building Capital Strategy](#) is creating noticeable pressure on the City's collective capital reserve fund balance by 2024 which requires attention and will be discussed in more detail as part of the November 10, 2020 special council workshop.

## **Financial Implications**

The 2021 Budget and the 2022 to 2030 Forecasts provide Council with a comprehensive, long-term view of the City's financial plan and resulting levy and rate impacts.

The financial implications have been summarized throughout this report in detail.

## **Consultations**

Local Boards and Agencies

Corporate Management Team

## **Strategic Plan Alignment**

The 2021-2024 Operating Budget and the 2021-2030 Capital Budgets supports all the priorities of the Strategic Plan and sets the pace for implementation.

## **Attachments**

None

## **Departmental Approval**

Greg Clark, CPA, CMA, Manager of Financial Strategy and Long-term Planning

## **Report Author**

Karen Newland, CPA, CMA, Manager, Finance Client Services

**This report was approved by:**

Tara Baker, CPA, CA  
General Manager, Finance / City Treasurer  
Corporate Services  
519-822-1260 extension 2084  
[tara.baker@guelph.ca](mailto:tara.baker@guelph.ca)

**This report was recommended by:**

Trevor Lee  
Deputy Chief Administrative Officer  
Corporate Services  
519-822-1260 extension 2281  
[trevor.lee@guelph.ca](mailto:trevor.lee@guelph.ca)