

Staff Report

To	City Council
Service Area	Corporate Services
Date	Tuesday, November 7, 2023
Subject	2024-2027 Multi-Year Budget Companion Report – Council Budget Decisions

Recommendation

The following recommendations will be brought forward to City Council for decision at the Special City Council Budget meeting November 29, 2023:

1. That the 2024-2027 rates, fees and charges be approved, subject to amendments during the budget confirmation years.
2. That the Downtown Guelph Business Association budget be approved, subject to any amendments in budget confirmation years, as follows:
 - a. A 2024 budget with gross expenditures of \$697,955 and a total levy of \$700,194.
 - b. A 2025 budget with gross expenditures of \$686,480 and a total levy of \$721,200.
 - c. A 2026 budget with gross expenditures of \$706,055 and a total levy of \$672,836.
 - d. A 2027 budget with gross expenditures of \$726,655 and a total levy of \$695,121.
3. That in accordance with the General Reserve and Reserve Fund Policy, total transfers to and from reserves and reserve funds for 2024 to 2027 are approved, subject to amendments during the confirmation budget years.
4. That the following reserves and reserve fund changes be approved, and Appendix A of the Reserve and Reserve Fund Policy be amended accordingly:
 - a. Contaminated Sites Reserve Fund (155) be renamed to Brownfield Renewal Reserve Fund
 - b. City Building Reserve Fund (159) be renamed to Service Enhancement Reserve Fund, and
 - c. Industrial Land Reserve (332) be renamed to Strategic Property Reserve and that the purpose and terms be updated to broaden the source and use of funds.
5. That Council acknowledges the City's operating contingency reserve balances are below approved targets, and that staff be directed to replenish these reserves as a first priority through the allocation of year-end surplus until

such point that they reach a minimum of 75 per cent of target over the multi-year budget period.

6. That Council acknowledges that the 2025 to 2033 Capital Budget and Forecast is creating reserve fund deficits and that staff be directed to balance the capital budget and forecast within available funding and report back to Council on the changes required through the 2025 budget confirmation.
 7. That staff be directed to report quarterly on the actual development charge collections and exemptions and overall funded status of the development charge reserve funds through the budget monitoring reports effective immediately as part of the third quarter 2023 reporting.
-

Executive Summary

Purpose of Report

The purpose of this report is to present items that fall outside of strong mayor legislation to Council for approval as part of the 2024-2027 Multi-Year Budget (MYB). This report accompanies [Guelph's 2024-2027 Multi-Year Budget - 2023-408](#) that will be adopted at the end of the provincially legislated municipal budget process.

Key Findings

There are several occurrences where the strong mayor regulations, the Municipal Act and City financial policies are not fully aligned and where Council direction via by-law is required in addition to the deemed budget adoption. Specifically, these areas include:

- The requirement of a Council-approved by-law to levy any taxes, rates, fees, and charges;
- The requirement for Council approval for the use of, or changes to reserves in accordance with the City's General Reserve and Reserve Fund Policy; and
- Any instance where additional direction to staff from Council is required.

Given the recent introduction of the strong mayor legislation, staff continue to work with municipal counterparts on the budget process and what items are and are not captured within the budget adoption.

Strategic Plan Alignment

The 2024-2027 MYB supports all the themes of the [Future Guelph strategic plan](#) and sets the pace for the implementation of initiatives and programs. Given the financial constraints demonstrated in this budget, it is expected that the targets for what can be achieved through the four-year period will need to be revisited and possibly revised.

Financial Implications

This report has no direct financial implications, instead, it provides a mechanism for certain budget-related Council decisions. The financial implications of the budget are fully documented and presented in the 2024-2027 MYB materials.

Report

With the introduction on July 1, 2023 of strong mayor legislation, the budget process was altered to follow a new time-limited progression, with a budget to be deemed adopted as the final step.

There are a number of occurrences where the strong mayor regulations, the Municipal Act and City financial policies are not fully aligned and where Council direction via by-law is required in addition to the deemed budget adoption. This report includes detail for each of the required Council decisions recommended above, and is presented in three categories:

- Requirement for a Council-approved by-law to levy taxes, rates, and fees.
- Requirement for Council to approve the use of, or changes to reserves in accordance with the City's General Reserve and Reserve Fund Policy.
- Any instance where additional direction to staff from Council is required.

Requirement for a Council-approved by-law to levy taxes, rates, fees, and charges

Recommendations 1 and 2 above relate to taxes, rates, fees, and charges that require a Council-approved by-law in place annually in accordance with the Municipal Act.

The [2024-2027 Rate, Fee, and Charges Guide](#) provides a full list of every City rate, user charge and fee for 2024 through 2027. For more information on these fees rates and charges, please visit the [operating budget summary](#) where any increases or decreases in the rates are explained.

In addition to the 2024-2027 Rate, Fee and Charges Guide, following the budget adoption/approval (typically in March of each year) staff will seek Council approval to levy property taxes in accordance with the annual Property Tax Policy. As part of this report, however, there is a recommendation for the approval of a special tax levy for the Business Improvement Area which was submitted to Council by the Downtown Guelph Business Association (DGBA). For more information on the DGBA budget, please visit the [Local Boards and Shared Services](#) section as part of the operating budget summary page.

The requirement of Council approval for the use of, or changes to reserves in accordance with the City's General Reserve and Reserve Fund Policy

Recommendations 3 and 4 seek Council direction as they relate to the City's [General Reserve and Reserve Fund Policy](#). In accordance with this Policy, Council approval of transfers into and out of the reserve funds in accordance with Appendix A of the Policy is required. As such, Council's direction to utilize the reserves and reserve funds in the 2024-2027 MYB as described in the [Reserve and Reserve Fund strategy](#) is required. In addition, staff are recommending three reserve fund names be updated to be more representative of the purpose of these funds as the City evolves its processes and strategy over time.

The first change is to adopt the language of Brownfield Renewal rather than City-owned Contaminated Sites for reserve fund (155), as this provides a better indication for the reader about the purpose of these funds. While the City owns and has a responsibility to monitor and remediate a number of contaminated sites, the

purpose of the funds in this reserve fund is to renew these properties so they are once again productive. These funds are currently restricted for use to just City-owned sites while the Redevelopment Incentives Reserve Fund (122) is used to fund investment in privately owned brownfield redevelopment through the use of incentives offered through Community Improvement Plans.

The second change is being recommended as a result of eliminating any confusion in the use of the term "City Building". In the 2024-2027 Future Guelph Strategic Plan, City Building is a key theme that includes a number of objectives including improving housing supply and making it easier to get around. The City Building Reserve Fund (159) has a different scope, focused on the capital funding required to enhance City service levels, such as increasing transit frequency, connecting the active transportation network, and extending protected cycling lanes throughout the City. For this reason, staff recommend the name of reserve fund (159) be changed to the Service Enhancement Reserve Fund.

The final change being recommended is for the current Industrial Land Reserve Fund (332) to be renamed to the Strategic Property Reserve Fund, and for the Policy details in Appendix A of the General Reserve and Reserve Fund Policy to be updated to the proposed terms of use proposed in Table 2 below. This reserve has historically only been used for the creation and resale of the Hanlon Creek Business Park, however, as that project nears completion, the City has broader goals as it relates to maximizing the value of city-owned property and leveraging property assets to increase affordable housing and meeting broader housing targets overall.

Table 1: Current Policy – Reserve 332 – Industrial Land

Purpose	Target balance	Source of funds	Use of funds	Authority/timing
Manage funds for the development of the Hanlon Creek Business Park, including proceeds from sale of land within the park.	Value of future land sales must be equal to or greater than cost of servicing less life to date land sales.	Funds transferred in from the sale of city-owned industrial or commercial land.	Funds used to purchase land, service new land and meet debt payments obligations.	Council approved through the Capital and Operating Budget or other in-year Council report.

Table 2: Proposed Policy – Reserve 332 – Strategic Property

Purpose	Target balance	Source of funds	Use of funds	Authority/timing
Manage funds restricted for the purpose of meeting	No established limit, reserve balance	Primarily proceeds from sale of city-owned land, where it	Funds can be used to advance strategic City goals through	Recommendations endorsed by the internal Strategic Property Committee to

the City's goals through strategic property decisions.	should be positive.	was not already previously budgeted as a revenue source. Other sources may include rental and lease income.	property transactions including but not limited to acquiring property that is strategic in nature and not for the sole purpose of providing city services, resourcing planning and studies, operating expenses resulting from land owned for strategic purposes, servicing land for the purpose of re-sale and repayment of debt issued for any of these purposes.	Council for approvals through the Capital and Operating Budget or other in-year Council report. In-year use up to \$1.5 million, with approval from CAO and Treasurer, in alignment with delegated authority of property acquisition. Reporting to Council for any such use of reserve is required annually.
--	---------------------	---	--	---

Any instance where additional direction to staff from Council is required.

There are three areas of this budget where additional financial risk mitigation measures are recommended by staff and require Council direction. All three relate to the balances in the reserves and reserve funds and are explained below in more detail.

Recommendation 5 - Operating Contingency Reserves

The operating contingency reserves in both the tax and non-tax budgets as a whole are no longer meeting the Council-approved targets as outlined in the General Reserve and Reserve Fund Policy. Through the 2024-2027 budget development, given the significant pressure from inflation and other provincial impacts not fully within the City's control, staff have recommended the use of contingency reserve over the four years more aggressively than in the past. In some cases, the actual use of these reserves may not be required as budgeted. Actual experience is monitored throughout the year and may not match the estimates used to develop these budgets, especially in the latter years of 2026 and 2027. Transfers from contingency reserves are made at year-end, based on actual costs up to the budgeted amounts. It would be prudent to keep a close watch on these balances

and replenish them to a minimum balance of 75 per cent of target as a priority before annual surplus funds are redirected elsewhere.

Recommendation 6 - Capital Reserve Funds

As described in detail in the [capital budget summary](#), due to the significant number of service delivery master planning documents being brought together in a period of high inflation, the capital budget is creating reserve fund deficits starting in 2025 that persist through the 10 years that need to be addressed. Even after multiple revisions of the capital budget by staff, deferring over \$693.7 million out of the first four years, additional project scope reductions, timing deferrals, and consideration of alternative revenue streams are needed. This work will return to Council as part of the budget confirmation years and in some cases, in-year reports on key programs that may need additional Council input.

Of specific concern is the Infrastructure Renewal Reserve Fund (150), notably under pressure because of the major aging facility projects at the same time as the downtown revitalization program gets underway. Staff will be reviewing further extension of asset replacement, descope projects and other project timing deferrals to address the budgeted deficit. In early 2024, the City's Asset Management team will also be leading service-level evaluation work that will help inform project priorities.

Further, the 100RE Reserve Fund (355) shows a deficit that is primarily due to the tax cost of electrifying the transit fleet including the new electric Transit Operations Facility. To help mitigate this concern, staff have allocated \$50 million of debt capacity to this project, however, current funding available is still not sufficient. This project is partially funded from the Investing in Canada Infrastructure Program grant, as are a number of other projects in the budget, including bus electrification and new bus acquisition to implement the [Guelph Transit Future Ready Action Plan](#). In total for these projects, there is \$331.5 million budgeted in the 2024 to 2033 forecast, in addition to the \$40.1 million budgeted in 2023 and prior. Staff are working to assess how to reduce the tax-funded cost of this program overall while continuing to leverage the grant funding. Staff will be reporting back to Council on the outcome of this work in 2024 either before or as part of the budget confirmation.

Finally, the last area of concern is the Water Services capital program. The aged state of both the supply and distribution infrastructure is creating a significant deficit in this capital reserve fund over the 10-year period. To help mitigate this concern, staff have allocated \$50.0 million in debt to Water Services in addition to the already approved \$16.0 million of debt from 2022-2023. Of this \$50.0 million, \$21.4 million will replace rate funds previously budgeted in 2022-2023, and the remaining \$28.6 million is directed to 2024 to 2027 capital costs for F.M. Woods and Verney Booster Pumping Station. Even with this, there are concerns with the financial sustainability within the current budgeted funding levels. More time is required to investigate options to address this concern, and staff anticipate a stand-alone report back to Council on the Water Services long-term plan and rate model will be required.

Recommendation 7 - Development Charges Reserve Funds

As described in the [Growth strategy](#) and the [non-tax supported budget](#) section of the operating budget summary, staff are recommending an increase in the

frequency of monitoring and reporting on development charge (DC) revenue collection and exemptions, discounts, and phase-in costs compared with budget. This information is currently reported annually in the Long-Term Financial Statement – Reserves and Debt report. It is recommended that quarterly reporting be provided in a new section of the Budget Monitoring reports.

In fall 2022, Bill 23 introduced several new exemptions, discounts, and a requirement to phase-in new DC rates over five years. The lost revenue that cannot be collected from developers must be funded by other sources, including provincial and federal funding to make Guelph whole, property taxes, and utility rates. The estimated costs of the new exemptions, discounts, and phase-in are \$227 million over 10 years, but the actual year-by-year cost will be dependent on many factors, including level, type, and timing of building activity.

Staff have proposed a long-term strategy for phasing in the additional costs for property tax and utility ratepayers, and as a result the tax-supported Growth Reserve Fund (156) is projected to have a negative balance until 2035. Similarly, the Water Capital (152), Wastewater Capital (153), and Stormwater Capital (165) reserve funds will be impacted by these additional costs over the same period. This introduces risk as the City does not have a choice as to whether or when to fund these costs – when applicable development occurs, these costs are incurred by the City. If federal and provincial funding is received to make Guelph whole, or assessment growth revenue increases beyond budgeted estimates, this may shorten the projected negative impact on reserve fund balances. Staff will continue to report on assessment growth revenue annually through the budget confirmation process.

In addition to monitoring the exemptions, discounts, and phase-in costs, staff recommend close monitoring of DC collections throughout the year. The costs of the growth-related capital program are significant, and if DC collections are lower than projected, cash flow will be impacted, and decisions may be required to pause or defer capital projects until collections recover.

Financial Implications

This report has no direct financial implications, instead, it provides a mechanism for the specific budget-related Council decisions outlined above. The financial implications of the budget are fully documented and presented in the 2024-2027 Budget materials.

Consultations

Antti Vilkkio, General Manager, Facilities and Energy Management

Terry Gayman, General Manager, Engineering and Transportation Services/City Engineer

Nectar Tampacopoulos, General Manager, Environmental Services

Gene Matthews, General Manager, Parks

Danna Evans, General Manager, Culture and Recreation

Adam Fischer, General Manager, Information Technology

Glenn Marcus, Strategic Business Advisor, Public Services

Jodie Sales, General Manager, Strategy, Innovation and Intergovernmental Services

Luke Jefferson, Strategic Property Advisor

Attachments

None.

Report Authors

Tara Baker, General Manager Finance/City Treasurer

Shanna O'Dwyer, Manager Financial Strategy and Long-Term Planning

Karen Newland, Manager Finance Client Services and Budget

This report was approved by:

Tara Baker

General Manager Finance/City Treasurer

Corporate Services

519-822-12260 extension 2084

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