Council Memo

To	**City Council**
Service Area	Corporate Services
Date	Wednesday, November 22, 2023
Subject	**2024-2027 Multi-Year Budget Workshop**

City staff presented Guelph's 2024-2027 MYB on November 7, 2023, during which a motion was unanimously passed by Council directing staff to schedule a budget workshop on November 22, 2023, to provide Council with options to consider for reductions within Guelph's 2024-2027 Multi-Year Budget (MYB). The purpose of this report is to provide an approach and materials to support options for Council's consideration. The Council Workshop is intended to help inform potential Council budget amendments on November 29, 2023.

As noted in the operating budget section of the website, assessment growth revenue assumptions were conservatively targeted at 1.15 per cent of the base budget per year. On November 7 the Municipal Property Assessment Corporation released year-end control totals estimating Guelph's assessment growth revenue to come in at 1.23 per cent. While this target may shift slightly over the next couple weeks, there is confidence that this target will be achieved, resulting in a 0.08 per cent reduction to the 2024 tax levy impact.

Staff will facilitate a workshop that takes Council through Guelph's 2024-2027 MYB reduction options in the following priority order:

1. Deferring new operating budget investments

   The first option to consider for reduction to Guelph's 2024-2027 MYB should be related to new investments, Attachment-1. These investments have been organized by the request categories that have been presented to Council during the budget presentation: operating impacts from capital, growth, service enhancement, capital financing and Provincial housing, homelessness and hospital. These requests align with the categories in the "search for budget request" section of the 2024-2027 budget dashboard. The dashboard's drill-down feature provides description details for each of the operating budget requests identified. Further, alignment to the Future Guelph strategic plan has been identified in Attachment-1 for all requests listed, to help guide Council's decision-making. Finally, the 2024 operating impacts from capital are generally resulting from past Council-approved capital budgets. To provide transparency on these projects, a column has been added to Table 1 of Attachment-1, identifying the year the capital project was approved, and the current status of the project.

2. Local boards and shared services operating budget investment reductions

   Following the November 7 budget presentation, staff requested that each local board and shared service agency consider further budget reduction options that could be made from 2024-2027. The responses to the request are as follows:

   County of Wellington:

   On November 8, the County of Wellington Social Services committee revisited the request of $4.6 million in 2024 to support housing and homelessness reduction in Guelph. This investment is captured under the Provincial housing, homelessness and hospital impact category, Attachment-1. Upon review, the total municipal requirement for 2024 has been reduced to $3.59 million, a decrease of $1.01 million or a 0.34 per cent reduction to the tax levy. No adjustments were made to 2025.

   The Elliott Community (The Elliott):

   Upon further review of the 2024-2027 budget that was approved by The Board of Trustees on October 5, 2023, The Elliott has acknowledged that funding received from the Provincial government is not keeping pace with costs to operate our Long-Term Care facility. In addition, expenditures to prepare for the opening of 29 additional Long-Term Care beds in the latter half of 2024 are not funded by the Provincial government. As a result of expanding our service without sufficient Provincial funding in the year of opening, the funding request for 2024 cannot be reduced. The Elliott will continue to consider further efficiencies and reductions for 2025 through 2027 as we realize the impacts of the bed expansion.

   Wellington-Dufferin-Guelph Public Health (WDGPH):

   The Province provided WDGPH with a 1per cent increase in base funding for 2024. Including the 2024 increase, WDGPH has received a total of 5 per cent from the Province over the past 10-year period, which does not keep pace with operating costs. Where able, WDGPH has reduced human resources and non-salary budgets but has reduced budgets as far as possible without causing unacceptable program delivery implications. The 2.6 per cent increase requested in 2024 (and the next 2 years) reflects this threshold.

   At the time of publishing the memo, the City had not received a response to this request from the Guelph Public Library, Guelph Police Services, Grand River Conservation Authority or the Downtown Guelph Business Association. Attachment-2, Table 2 summarizes the options provided by the City’s local boards and shared services agencies for amendment on November 29.

3. Reducing investment in Service Enhancement and 100 per cent Renewable Energy (100RE) capital projects

   Investments in service enhancement and 100RE initiatives are made through annual transfers to the Service Enhancement (#159) and 100RE (#355) Reserve Funds, which are presented in Table 1 and Table 3 of Attachment-3. Reducing investments in these areas would be accomplished by reducing the annual transfers to the respective reserve funds, along with removing capital projects funded from these sources.

As noted in the Service Enhancement Strategy and shown in Table 1 of Attachment-3, the annual transfer consists of a time-limited and a recurring component. The time-limited portion is to phase in the operating impacts for the Baker Library and South End Community Centre and will end in 2025 as those facilities are expected to open in 2026. Since construction has started on both facilities, staff do not recommend reductions to this component as it would result in a larger impact in 2026, when the facilities open. The recurring portion of the annual transfer will cover the existing reserve fund deficit balance ($700 thousand), which resulted from funding projects approved in previous budgets. It will also cover the debt repayment costs for the Baker District project funded from the Service Enhancement Reserve Fund(#159) which are expected to total $3.5 million per year beginning in 2028, assuming a 4.5 per cent interest rate over 20 years. Staff also do not recommend reducing the annual transfer below these amounts since they fund previous decisions of Council related to approved capital projects which are in progress. The remaining portion of the recurring transfer will be used to fund capital projects included in the 2024-2027 multi-year budget, and staff advises Council to focus potential reductions to this amount. The capital projects that would be funded in the 4-year budget are presented in Table 2 of Attachment-3.

The annual transfer to the 100RE Reserve Fund (#355) is shown in Table 3 of Attachment-3. The projects funded from this reserve fund are listed in Table 4 of Attachment-3. The reserve fund is projected to have a negative balance beginning in 2024 as outlined in the 100RE Strategy despite the increases in the annual transfers.

Should Council wish to reduce the funds going into these reserve funds, they would also need to reduce, defer, or remove capital projects of at least an equal value from the budget. Council would need to specify if the amount of the reduction would be readded in future years. If a reduction is made in one year and not added back in, projects in future years will also need to be reduced, deferred, or removed from the budget. For example, if $1 million were removed from the 2024 transfer to the reserve fund and not added back in the following year, a total of $4 million in capital project expenditures would need to be removed from the 4-year budget.

Capital project funding is often complex with a project being funded from multiple reserve funds depending on the scope of the project. In the case where a project has additional funding from other sources, the total project budget must be reduced proportionately to maintain the appropriate funding split of the project. Reductions that result in the changing of project scope may also have implications on the eligibility of development charge funding.

4. Slowing down the pace of growth

As noted in the staff's response to the question "what does the budget look like if we were to slow down the pace of growth?" on the Budget Board, slowing down the pace of growth is challenging. This is due, in part, to the legislative environment that provides timelines for processing planning and building permit applications, exempts certain development types from the payment of development charges (DC), and provides as-of-right approval for some developments that are exempt from DCs, specifically accessory or additional residential dwelling units (ARDUs). The complete Budget Board response is included in Attachment-4.

The budget includes annual transfers to the Growth (#156) Reserve Fund to fund projected DC revenue loss from exemptions, discounts, and phase-in of new DC rates (for property tax funded services) as required by the *Development Charges Act, 1997*, as amended. The Growth Reserve Fund also funds growth-related capital projects that are not eligible for DC funding such as studies and garbage collection and disposal (landfill) as only waste diversion is eligible for DCs.

Table 1 - Growth Reserve Fund forecast ($ millions)

Description	2024	2025	2026	2027
Opening balance	(1.2)	(12.6)	(20.9	(26.5)
Transfer in	5.8	7.5	9.0	10.5
Costs for DC exemptions, discounts, and phase-in	(16.5)	(14.7)	(13.1)	(10.2)
Costs for capital projects	(0.7)	(1.2)	(1.3)	(0.8)
Costs for debt repayment	-	-	(0.1)	(0.1)
Closing balance	**(12.6)**	**(20.9)**	**(26.5)**	**(27.1)**

Table *1* provides an excerpt of the Growth Reserve Fund forecast which is included in the Growth Strategy. It also shows the costs of DC exemptions, discounts, and phase-in, capital projects, and debt repayment for the South End Community Center (SECC). As shown in Table *1*, the costs of DC exemptions and phase-in far exceed the costs of capital projects and debt repayment. These costs are also higher than the annual transfer into the Growth Reserve Fund resulting in a growing deficit balance over the 4-year period.

Staff does not recommend reductions to the annual transfer to this reserve fund because the budget took a long-term approach to funding the DC revenue loss. The City is required to fund the actual amount instead of the budgeted or projected costs. Since the projected cost of exemptions, discounts, and phase-in is almost three times the amount transferred into the reserves in 2024, actual development would need to fall to less than 30 per cent of projections to result in surplus annual transfers, and the reserve fund is projected to start out the year with a negative balance due to higher than budgeted funding for exemptions and discounts in 2023. On the other hand, if development activity is higher than projected, the City would need to increase the amount of tax-supported funding to the Growth Reserve Fund to cover the associated DC exemptions, discounts, and phase-in. Furthermore, a portion of the transfer, $100 thousand, will be used to cover debt repayment costs for the SECC, which is currently under construction. The list of capital projects funded from this reserve fund is provided in Table 2 of Attachment-4.

5. Reducing current service levels

Should Council wish to explore further reductions than those identified above, the only options left to consider are service level reductions of existing programs, including capital projects that support the delivery of services budgeted in 2024-2027. This should be considered as a last resort as impacts to services cannot be avoided if a decision is made to reduce existing department and capital project budgets. Department service level reductions vary but may include items such as reduction in annual road paving, preventative maintenance on assets, grass cutting cycles, Sunday transit service, communication and community engagement activities, slowing the pace of efforts in equity, diversity and inclusion or the elimination of loose-leaf collection, to name a few.

The organizational structure section in the Budget Manual provides a description of the work and the value that each City department delivers, as well as a summary of how that department is funded. Further, the operating budget in the 2024-2027 budget dashboard is presented to reflect the net budget impact of each City department.

From a capital project perspective, reductions to current service levels means extending the service life of City-owned assets and infrastructure that the community relies on daily such as road work, pipe and sewer replacement and facilities. Capital projects that maintain these service levels are included in the 2024-2027 budget and are directly tied to the City's Asset Management Plan (AMP). The AMP allows staff to understand the life cycle of our assets and proactively budget for their replacement at an appropriate time to mitigate risk of asset failure to provide safe and responsible public services to our community. Extending our City-owned assets beyond their life cycle leads to an increased risk of asset failure, placing the City in a reactive response scenario to repair or replace the asset, which usually comes with a much higher cost.

Should Council wish to explore these options further, this portion of the meeting will be moved to a closed session.

Attachments

Attachment-1 Budget request tax levy impact by category

Attachment-2 Local boards and shared services (LBSS) tax levy impact

Attachment-3 Service Enhancement and 100RE Reserve Funds

Attachment-4 Growth Reserve Fund

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