Norfolk County

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Council-In-Committee Meeting – July 11, 2023

Subject:	2025 Budget Timetable and Guidance
Report Number:	CS-24-096
Division:	Corporate Services
Department:	Financial Management and Planning
Purpose:	For Information

Recommendation(s):

THAT Report CS-24-096 2025 Budget Timetable and Guidance be received as information;

AND THAT Council accept the guidelines contained within this report and that staff be directed to use these guidelines in preparation of the 2025 budgets.

Executive Summary:

Though improvements in the County's financial position have been made over the last four years, including the significant year end surpluses in 2022 and 2023, the County continues to be in a position where additional steps are required. The largest internal challenges continue to be:

- Asset management needs
- Reserve strategy

Norfolk's infrastructure needs and replenishing reserves will be two significant budget drivers for 2025 and beyond. While inflation has been reducing, it is still higher-than-normal and continues to be an external threat to the County's budgets, with the year-over-year increase reported at 3.0% by Statistics Canada in June.

Based on current macro-economic and various internal factors, the preliminary forecasted budgeted impact on the average residential property owner indicates an increase of approximately 7.5% for the levy supported operating budget (8.5% net levy increase). In addition, the average residential rate increase of 14.0% is forecasted for water and wastewater users in 2025, because of the long-term plan adopted during the 2021 rate budget process and significant planned capital investments for the water and wastewater systems. The rate increase will be affected by any decisions made by Council relating to the Inter Urban Water Supply (IUWS) project prior to budget deliberations. The increases outlined above include addressing infrastructure needs (though not fully) and covering cost increases to maintain status quo service levels; as well some new initiatives are anticipated to be brought forward for consideration during the levy budget process.

These estimates are preliminary in nature and will continue to be refined through the budget process. Staff will refine estimates and provide further, and more detailed, updates to Council and the public based on the mid-year variance report, bid awards, detailed budgetary analysis, and a thorough review of various budget line items. The senior leadership team and staff will work towards mitigating the estimated impacts prior to the proposed budget presentations.

Discussion:

Section 290(1) of the Municipal Act requires all municipalities to prepare and adopt an annual operating budget. Annually, three budgets are prepared and approved by Council in Norfolk County: the capital budget with a 10-year plan, a rate supported operating budget, and a levy supported operating budget.

This report outlines the proposed presentation timelines for the 2025 budgets, as well as detailed factors to be considered during budgetary preparation. This report also provides an opportunity for an update on budget pressures currently identified, which have been considered when completing the budgetary projections for the 2025 budgets.

Preparation for the 2025 budgets has been initiated to ensure that Council approvals will be in place prior to, or in early, 2025.

Timetable & Format

The table below outlines the proposed budget presentation dates to the Budget Committee for deliberations. While the timelines will be fairly aggressive and will require strict adherence by staff to meet these dates, the proposed deliberation dates are realistic and achievable.

Budget	Budget Committee Deliberation Date
2025 Agencies, Boards & Commissions and User Fees and New Budget Initiatives Preview	October 17, 2024
2025 Rate Supported Budget	October 31, 2024
2025 Tax Capital Budget & 10 Year Plan	November 21, 2024
2025 Levy Supported Operating Budget	January 15 & 16, 2025

In recent years, the Mayor has acted as the Chair of the Budget Committee. It is anticipated that this approach will remain for the 2025 budget process.

Financial Management and Planning staff intend to present the budgets with a slight change to format for 2025. As noted above, the Rate Supported Budget is planned to be reviewed by Budget Committee at the end of October. This is earlier than previous years, as the intention is to incorporate the Rate Supported Capital Budget and Forecast into this document as well. It is anticipated that this approach will better demonstrate the relationship between the significant planned capital spending for rate supported operations, and the impact on the actual rate increases proposed. This change will result in the November Budget Committee meeting being for the review and deliberation of the Levy Supported Capital Budget. The Levy Supported Operating Budget is intended to be reviewed in the usual format for 2025.

2025 Budget Guidance Factors

When reviewing the outlook for the future year's budget, a number of factors should be considered, including prior year tax and rate increases from a historical and planning perspective; economic factors; as well as current challenges and budget drivers.

Economic Factors

It is also important to consider the effect of external factors on the budget as these impact the overall economy, are influenced by higher levels of government, or reflect global impacts. These factors are beyond Council's control and will undoubtedly have effects on residents and businesses, and the County's budget. Overall, the general economic indicators suggest a strong state, citing continued growth in GDP and record low unemployment. However, the County, as well as the residents and businesses, are still experiencing higher than normal inflation rates.

Economic indicators reviewed do show further recovery from some of the pandemic impacts; however, inflation is still running higher than target rates.

Some of the factors that were reviewed have been outlined below:

1. Unemployment as of May 2024 was 6.2% in Canada, which is higher than unemployment in May of 2023 (5.3%). Pre-pandemic levels hovered between 5 and 6%. This represents a significant improvement from unemployment rates experienced through the COVID-19 pandemic, at 8.0% in May of 2021.[1]

2. GDP growth is projected to increase by 1.5% in 2024 and 2% in 2025[2]

3. The Consumer Price Index (CPI) declined to 3.0% year over year in May, 2024; this decrease from 3.1% in 2023 represents a move toward more stabilized pricing increases.[3]

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[1] Statistics Canada, Labour Force Survey, May 2024, https://www150.statcan.gc.ca/n1/daily-quotidien/240607/dq240607a-eng.htm
[2] Bank of Canada, Monetary Policy Report – April 2024, https://www.bankofcanada.ca/wp-content/uploads/2024/04/mpr-2024-04-10.pdf
[3] Statistics Canada, Consumer Price Index, May 2024, https://www.statcan.gc.ca/en/subjects-start/prices_and_price_indexes/consumer_price_indexes

4. The Bank of Canada's April Monetary Policy Report cites the following factors as driving inflation: "moderate excess supply is expected to remain throughout 2024 and start to dimmish in early 2025, and the labour markets are easing". The report predicted that CPI inflation is expected remain around 3% in the middle of 2024, then decline more gradually to the 2% target in 2025.[2]

5. Deloitte economists noted "after one of the most rapid monetary tightening campaigns in decades, inflation is finally within the Bank of Canada's target range."

   The first interest rate cut was expected in June 2024. "As interest rates are reduced through this year and next, the cost to service debt loads will ease, resulting in firmer household spending and a revival in business investment that will propel an economic recovery."[4]

Current Challenges and Anticipated Budget Drivers

Norfolk County will be facing numerous challenges in developing the budgets for 2025 and will need to take these into consideration while deciding which services and programs will be delivered, and how they will be delivered. The goal of the budget process is to maximize the value for services provided, while considering the economic constraints facing residents and businesses.

Typical Drivers for 2025:
Some of the budget drivers typically anticipated include inflationary increases for goods and services; prior negotiated salary increases; price adjustments for contracted services; changes in utility rates, employee benefit rate negotiations, and fuel rates.

Other challenges include uncertainty of funding allocations from the Provincial and Federal government; decisions by upper levels of government on operations and program delivery; contract negotiations not finalized; and unknown assessment growth at time of budget deliberations.

Though the County has moved closer to the goal of long-term financial sustainability through the budgetary improvements made during the 2020-2024 budget deliberations, there is still work to be done. Depleted reserves continue to be a major financial weakness of the County; this will result in the primary driver of infrastructure costs within the levy and rate budgets. In addition, focus has been placed on asset management, water capacity issues within the County and required wastewater investments which are anticipated to have material impacts to the capital plan and potentially to the water and wastewater rates when decisions are finalized.

Unique Drivers for 2025:
For the 2025 budget there are also some unique challenges anticipated for Norfolk County. Though we have made significant strides over the last four budgetary cycles,

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[4] Deloitte, Economic Outlook – April 2024, https://www2.deloitte.com/ca/en/pages/finance/articles/economic-outlook.html

the largest challenge continues to be the financial position of the County, and the lack of significant reserve funds.

As noted earlier, there continues to be additional cost increases and inflationary pressures above the typical rate of inflation, although moving back toward a more normal rate. This will continue to have impacts on costs for supplies and services into 2025.

Finally, as the municipality continues to experience growth, this will lead to a greater demand for services, putting further pressure on staffing resources. It is expected that this will be a driver, and challenge for the organization, for 2025 and future budgets.

Prior Budget Highlights & Projected 2025 Impact

While preparing for the budget, it is important to recall the highlights from the prior year's budget and to utilize the lessons learned. Additionally, during the 2024 budget process, high level forecasts were completed for the 2025 Capital, Levy, and Rate Operating Budgets. These high-level forecasts have been updated based on some of the internal and external factors indicated above, and updated forecasts have been indicated below.

It should be noted that the projections below will continue to be refined through the budget process and could decrease/increase as more detailed analysis is completed. Staff will continue to provide further updates, as well as more detailed driver listings as the budget process continues. There are many impacts that are unknown, or not fully understood, at this time and some estimates include an associated level of risk.

<u>Capital Budget</u>
2024 Budget – Key Highlights:
1. Total 10 year forecast $1.02 billion, with $166. million approved to be initiated in 2024; the majority of the plan (67%) was related to the replacement of existing assets to maintain our current service levels.
2. The infrastructure gap was estimated at $72 million (2021 value) over the 10-year plan for core assets (for example roads and bridges) during the preliminary development of the asset management plan. Non-core assets (such as administrative buildings, recreational assets) infrastructure gap will be incorporated into the 2024 Asset Management Plan also being presented at the July 9, 2024 Council-in-Committee Meeting, and will have material impacts on future budgets.
3. Due to depleted reserves, debt was heavily relied on to finance the capital plan, causing forecasted repayment levels to rise to 15.2% of own source revenues within the 10-year period; this debt level is considered high, and is slightly above Norfolk County's internal debt limit of 15%.

Preliminary 2025 Budget Projections:
1. Inflationary pressures are anticipated to continue to impact the asset management gap, required reserve contributions, and debt projections over the

long-term plan. In turn, these pressures will result in higher costs in the operating budgets, which are a key funding source for debt and reserves.

2. Given the County's focus on asset management planning, significant increases to our capital plan are anticipated for the 2025 to 2034 timeframe as staff work through project needs analysis.

<u>Rate Supported Operating Budget</u>

2024 Budget – Key Highlights:

1. The average residential charges increased 12% in 2024 which represented a predictable and sustainable increase while addressing system maintenance and project management capacity.
2. 2024 represented the fourth-year budget of a 10-year plan adopted to address the infrastructure gap while considering financial sustainability. This plan includes stable projected rate increases over a 10-year term.
3. Based on operational and volume information available during the 2024 budget, a 14% rate increase was anticipated for 2025, while noting decisions regarding the Inter Urban Water Supply could result in changes from the long-term strategy (IUWS).

Preliminary 2025 Budget Projections:

1. There has been a higher increase in water and wastewater users as compared to the level anticipated during the Rate Study, as such, it is anticipated this will help mitigate the impact of higher than anticipated inflationary pressures being experienced for operating expenses over the last three years.
2. The long-term financial strategy for water and wastewater services adopted previously anticipated a rate increase of 14% for 2025, however the IUWS project is anticipated to significantly impact the rate projections. Staff are continuing to analyze projected impacts of the project to evaluate its financial viability. Further details will continue to be brought forward to Council as updates become available.
3. A comprehensive rate study was approved in the 2024 Capital Plan. This project is anticipated to commence later in 2024, for implementation in the 2026 budget, and will make recommendations for long-term rate increases.

<u>Levy Supported Operating Budget</u>

2024 Budget – Key Highlights:

1. The 2024 budget was approved with a net levy increase of 7.7%. Growth in tax revenues was used to reduce this impact and resulted in a 6.3% increase to the average residential taxpayer (including the education rate impact).
2. Significant budget drivers of the tax increase were infrastructure funding requirements (4.7% increase) and levy funded salaries & benefits (2.3%). These cost increases were offset by a reduction in insurance premiums (0.4%), winter control (0.2%) and recycling impact - blue box transition (0.2% each).
3. This budget approved some noteworthy service level enhancements; a new stormwater program, adding staff and equipment to meet legislated

requirements, a student to help with building permit enquiries and processes and new software to enhance scheduling for social services clients.

4. Based on information available during the 2024 budget, an 8.5% net levy increase was forecasted for the 2025 budget.

Preliminary 2025 Budget Projections:

1. Based on preliminary high-level analysis, staff are projecting an increase of 8.5% to the net levy, and an increase of 7.5% to the average residential taxpayer. This matches the projected increase presented with the 2024 budget. Main financial pressures are outlined in the points below.
2. Inflation has continued to be higher than is typical, as noted earlier in the report, although it is expected to continue to decline. This is certain to be a budget driver as contracts are adjusted to account for these additional pressures. Many long-term contracts continue to see increases greater than inflation when going through the procurement process.
3. Infrastructure funding, including debt payments and transfers to reserves will continue to be a significant budget driver for 2025, and beyond. Compounding the existing asset management gap and need for reserve improvements is the high level of inflation which will require additional reserve contributions to keep pace.
4. Assessment growth generated through property development or improvements creates additional revenue which will offset some of the property tax increase. Early indications suggest similar growth for 2025 to what was experienced for 2024 (estimated at 1.0%), however staff will continue to monitor and adjust estimates as the budget is prepared.
5. The County continues to experience pressures on existing services and demands for new or enhanced services because of growth, changing legislation, and historical service delivery pressure points. The Senior Leadership Team (SLT) has been reviewing corporate priorities and existing challenges to identify innovative solutions to address these needs. New Budget Initiatives will be presented within the 2025 Budget, as well as projections for future years within the next term of Council, and form part of the budget increase projection.

Summary

In summary, taxpayers experienced a stabilized increase in taxes and ratepayers experienced a large, but predictable rate increase in 2024. Early projections for the 2025 Rate, Levy and Capital Budgets have remained consistent with the levels expected during budget deliberations in 2024 and have been largely driven by infrastructure demands.

Budget Guidance Recommendations

Budget Guidance provided by Council sets a framework for staff to utilize while developing the proposed budgets. Staff are recommending the following budget planning assumptions be adopted by Council and that staff be directed to use this framework while preparing the 2025 annual budgets:

Overarching Principals:

1. Departments include stakeholders wherever possible in the budget process.
2. Departments to review administration, operating services, and organization to ensure services are provided in the most efficient and effective manner.
3. Departments to place emphasis on cost savings and creative solutions to service delivery when reviewing budgets to minimize impacts to residents.

Capital Budget:

1. Where possible, projects within the capital plan be selected by utilizing the risk and needs information gathered for the asset management plan, and that projects be prioritized based on that information.
2. That staff take special consideration when recommending projects to be initiated in 2025, including reviewing the capacity for project management and a review of prior approved projects that have experienced delays.

Rate Supported Operating Budget:

1. That the water and wastewater rates be established based on Council decisions related to the Inter Urban Water Supply project, and associated information on other capital needs that come forward to Council prior to budget deliberations.

Levy Supported Operating Budget:

1. That an average residential property tax increase of 7.5% be targeted.
2. That the targeted net levy increase include a planned 4% increase for infrastructure funding to continue addressing reserves, balanced with any impacts to debt servicing costs.
3. That the first 1% of assessment growth revenue be applied against the 2025 tax increase, and that the growth revenue above that amount be applied for infrastructure purposes and be allocated to prioritized reserves.
4. That a staff report outlining the business case for service level changes be presented to Council prior to the inclusion of a New Budget Initiative in the 2025 proposed budget document. That service level changes can include reductions where the current level exceeds needs. Staff are encouraged to bring forward New Budget Initiatives that propose efficiencies or offset the costs of other initiatives.
5. Key Financial and budgetary policies will remain in force including (i) no deficits being allowed, (ii) maintaining the “debt placeholder” in the budget for approved projects and (iii) forecasted ARL not to exceed 15%.

Why are Taxes Increasing after a Surplus in 2023?

As presented within the 2023 Audited Financial Statements and Year End Performance Measures Report (CS-24-101 also included on the July 9th agenda), a significant operating surplus was experienced in 2023. This may raise the question “Why are taxes forecasted to increase, after the County had a surplus in 2023?”

A summary of drivers of the surplus have been provided in the year-end report, however, at a high level, a significant portion of the surplus in 2023 was related to a positive variance in salaries and benefits, winter control and investment returns due to increased interest rates.
Organization wide, there was a surplus of approximately $4.0 million in salaries and benefits, which represents the net levy impact, excluding shared health and social services. This surplus was driven by salary gapping and departmental variances.

Driven by higher cash balances than anticipated, rising interest rates and a more progressive investment strategy, a surplus of approximately $5.4 million in investment income, interfund interest and other interest was experienced in 2023.

Favourable winter conditions in 2023 compared to the historical average lead to a surplus of $1.7 million for winter control materials, supplies and services. Adjustments were made to the 2024 winter control budget to continue to address surpluses over the last few winters.

Though significant budgetary reductions are not anticipated as a result of the two main surplus drivers in 2024, some of the positive operational variances experienced in 2023 are anticipated to result in reductions to the budget for 2025. Many of these drivers also saw revised budget estimates for 2024, which are noted in the driver listing attached to CS-24-101. Due to higher-than normal inflation and rising contract costs, these impacts will only partially offset the increased financial pressure associated.

Financial Management and Planning will be placing an emphasis on detailed review of all significant 2023 budget surpluses during the development of the 2025 budgets.

Public Consultation

Public consultation for annual budgets was initiated in 2021 and built upon in 2022, where staff completed online engagement meetings, a survey for residents, as well as worked with the communications team to enhance public communication leading to and during budget deliberations. During 2023 the process was evaluated as limited attendance was experienced during both years, the sessions were not continued for the 2024 budget process.

For 2025, staff recommend continuing to explore the potential of the County’s engagement platform to drive feedback for the budget process, as well as investigating other options and industry best practices. Potential alternatives could include more on-demand resources explaining the budget process and educating, such as videos, and enhanced opportunities to provide feedback on the County’s engagement platform to allow more flexibility for residents to engage.

For the survey, staff are recommending posting the survey for a slightly longer timeframe than completed in 2023. This will allow a greater opportunity for participation.

Financial Services Comments:

The proposed timetable and outlook provide Council and the public with some indications on the projected financial impact for 2025 for residents.

The budget outlook includes the targeted increases in percentages; however, it is also important to review the anticipated impact expressed in dollars. Below, the estimated residential impact for water and wastewater rates and property taxes have been presented for residents.

Rate Impact

The outlook projects that the average residential rates will increase by 14% in 2025, prior to changes in service delivery. Below, the monthly impact on the average residential customer has been presented as a baseline.

Table 1: Monthly Estimated Impact on Water and Wastewater Rates based on 2025 Budgetary Outlook

Meter Size	Volume CM	2024 Approved Charges	2025 Estimated Charges	$ Change	% Change
15mm	12	$133	$152	$19	14%

As noted in the report, this estimate is based on the previously approved long-term strategy, and any additional decisions relating to IUWS or other projects could significantly impact this forecast.

Levy Impact

For the levy, the estimated increase to the average residential taxpayer is 7.5%. Below, both the estimated net levy increase and the impact on the median residential assessment has been provided.

Table 2: Annual Estimated Increase on the Net Levy Requirement

Approved 2024 Net Levy Requirement	$128,544,000	
Estimated Budgetary Increase	10,899,000	
Estimated 2025 Net Levy Requirement	**$139,443,300**	**8.5%**

In addition to the budget drivers outlined above, taxation growth revenues are also applied against the levy. Assessment growth is generated through property development or improvements. This means, though the property tax increase is estimated at 8.5%, tax payers will experience a lower increase in their taxes, as growth revenues will absorb some of this increase.

The current value assessment (CVA) is the basis for property taxation by municipalities in Ontario. Generally, the CVA for each property is updated every 4 years by MPAC, with increases being phased in every four years. For 2025, the Province has not provided direction for MPAC to move forward with the reassessment update, which means property assessments will remain the same as for 2021-2024, unless there were changes to a property. Annual reassessment impacts do not form part of the assessment growth, and reduce the base tax rate, which creates a revenue-neutral situation.

Since no reassessment is expected for 2025, the status quo median assessment value of $240,000 for tax class RT (residential taxable full) is estimated to remain unchanged from 2021-2024, and has been used in the calculations below:

Table 3: Annual Estimated Increase on Average Residential Property Taxes from 2025 Budgetary Guidance

	2024 Actual Tax Levy	2025 Estimated Tax Levy	Change ($)	Change (%)
Municipal Tax Levy*	$3,621.17	$3,897.07	$275.90	7.6%

*Note: the taxation impact calculations above exclude the education tax impacts, which are uncontrollable by the County. Over the last few years, the education tax rate for the residential class has stayed the same or has been reduced. These changes will also impact the total % increase for taxpayers in 2025, however actual education rates have not been projected at this time.

Interdepartmental Implications:

Teamwork among corporate staff in all Departments is imperative to compile the 2025 budget documents for effective review by Council.

Consultation(s):

Senior Leadership Team; Supervisor, Corporate Communications; Manager, Revenue and Taxation and the Supervisor, Financial Initiatives and Planning were consulted in the preparation of this report.

Strategic Plan Linkage:

This report aligns with the 2022-2026 Council Strategic Priority Sustaining Norfolk – Creating a sustainable community and a positive legacy.

Explanation:
Preparing accountable, reliable budgets will help promote the financial sustainability and future success of the Corporation.

Conclusion:

Staff will prepare 2025 proposed budgets that reflect and incorporate the pressures and impacts discussed. There are many impacts that are unknown, or not fully understood, at this time and some estimates include an associated level of risk.

Once staff have completed the mid-year variance report, many estimates will be able to be refined. A critical review of all budgets is ongoing and will further refine estimates as the process moves forward, with the intent to find efficiencies and mitigate cost increases.

Attachment(s):

- N/A

Approval:

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