



Council Report

Report Number CORP202-019

Meeting Date: December 1, 2020

Title: Proposed 2021 Operating Budget Update

Author and Title: Jennifer Stover, Director of Corporate Services

Recommendation(s):

That Report CORP2021-019, **Proposed 2021 Operating Budget Update**, be received;

Department Head:_____

Financial/Legal/HR/Other:_____

Chief Administrative Officer:_____

Background:

The typical budget process would involve Council and the public receiving a budget document which includes all of the City's budgets in advance of any deliberations occurring.

The 2021 budget was originally proposed to follow the normal process with the complete budget document being issued in December 2020 followed by deliberations in the first quarter of 2021.

As a result of the pandemic, many capital projects, that were approved and funded in 2020, were delayed and will therefore be ongoing in 2021. It therefore became apparent to staff that the City was not going to have sufficient resources to proceed with a full capital program 2021. The uncertainty of the duration of the pandemic and the impact it would have on City operations in 2021 also made it prudent to not over commit the 2021 capital program.

Adopting the Capital program prior to the end of the year provides the advantage of being able to tender early which can garner more competitive bids. Staff were able to compile a proposed capital program for 2021 quicker than anticipated, and therefore the budget schedule was amended to allow for the 2021 Tax Levy Supported Capital Budget to be approved prior to year end.

The 2021 Proposed Tax Levy Supported Capital Budget was made available to Council and the Public on November 6, 2020. At the Special Council meeting of November 12, staff provided Council with an overview of the program, and provided a status of the long term financial plan.

This report provides an overview of the 2021 Tax Levy Supported Operating Budget to ensure that Council has an awareness of the City's tax supported pressures prior to deliberating the 2021 Capital budget.

Rationale:

The Operating Budget is comprised of three key components: the revenues and expenditures that support day to day operations; transfers to reserves to support capital or future needs; and the tax levy.

Any increase in operating expenditures and/or transfers to reserves that are not offset by operating revenues require a tax levy increase.

The key pressures for the 2021 budget are as follows:

Key Driver	2021 Budget Impact (in Millions)
Increased Expenditures:	
Salaries and Benefits	\$2.1
Winter Control	\$0.5
Waste Management	\$1.5
Victoria Manor *	\$0.8
HKPR Health Unit	\$0.4
Reduced Revenues:	
Arena and Hall revenue *	\$0.2
Investment Income *	\$0.6
Transit Fees *	\$0.1
Landfill Tipping Fees	\$0.1
Total Operating Pressure	\$6.3
Increased Revenue	
Tax Levy Adjustments	(\$1.5)
2021 Tax Levy Requirement	\$4.8

The items asterisked (*) above are, in whole or in part, related to the pandemic.

Staff continue to review the budget with the goal of reducing the operating budget to tax levy impact in the 3% to 3.5% range as in previous years.

It is important to note that none of the key drivers noted above relate to an increase in the transfer to reserves, or more specifically, an increase to the Capital Reserve. Included in the base operating budget is a transfer of approximately \$9.1 million to the Capital Reserve. This is the reserve that is used as a main source of funding for the capital budget each year.

As there is not an increase in the transfer to the Capital reserve, there is also not a tax levy impact to the proposed Tax Supported 2021 Capital Budget. All of the tax levy increase for 2021 is being attributed to the Operating Budget.

At the Special Council meeting on November 12, staff identified that the Long Term Financial Plan proposed regular and ongoing increases to the Capital Reserve in order to sustain the City's capital assets. Pressures in the operating budget have annually exceeded the need that was forecasted in the long term plan and therefore the projected increase in Capital Reserve contributions have not kept pace. This is not ideal, and will need to be addressed in the update to the Long Term Financial Plan.

2020 Operating Budget and Pandemic Impact

Prior to considering the 2021 budget, it is also important for Council to understand the 2020 financial position. At the Council meeting of July 28, 2020 the Chief Administrative Officer was directed to target a year end zero deficit budget. The forecast to year end is still projecting zero deficit however there are two unknowns that could impact that result. Winter control has historically been over budget in previous years. The 2020 year end forecast includes a contingency for winter control and staff remain hopeful that the contingency is sufficient to support any overage. The additional unknown is any further impacts that the pandemic may have however, with one month left in the year, staff are not expecting a major impact on the year end position.

In August, the City received commitment for \$4.8 million from the Federal and Provincial governments under the Safe Restart Agreement. These funds are to address the operating pressures and local needs of the City. To date, the impact of the pandemic on City operations has exceeded \$5 million. Staff are required to report back to the Province on the use of these funds, including the City's overall 2020 financial position, in March 2021. At this time, staff will also report to Council on the status of these funds.

More recently, the City was allocated \$391,279 through the COVID-19 Resilience Infrastructure grant. Eligible projects for this grant include infrastructure to support physical distancing, social infrastructure, active transportation and disaster mitigation projects. Staff will be making an application to the Province in the coming weeks to secure these funds, and will report back to Council upon acceptance of the application.

Other Alternatives Considered:

No other alternatives are being recommended.

Alignment to Strategic Priorities

This report aligns with the strategic priority of Good Government.

Financial/Operation Impacts:

As noted above, the proposed 2021 Tax Supported Capital Budget will not result in a tax levy impact for 2021. Any proposed increase in the tax levy is currently being fully allocated to the operating budget.

Consultations:

Senior Management Team

Treasurer

Manager, Capital Assets

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