



REPORT

2022 Budget Committee

Meeting Date: June 21, 2021

FROM: Finance Department

DATE: June 15, 2021

SUBJECT: 2022 Budget Forecast

LOCATION:

WARD: Town-wide [Click here to add multiple wards.](#)

Page 1

RECOMMENDATION:

1. That the staff report dated June 15, 2021, entitled *2022 Budget Forecast* from the Finance department, be received.
2. That the rates and fees increase for 2022 be increased by 2% in line with inflation.

KEY FACTS:

The following are key points for consideration with respect to this report:

- Council set a guideline for an overall tax levy increase for 2022 in line with inflation.
- The mean annual inflation forecast from bank economists is 2.00% for 2022.
- To achieve an overall increase of 2.00%, and using the Region's forecasted increase of 2.30% and assuming no increase for Education, the town's portion of the tax levy increase would need to be capped at 2.75% after assessment growth.
- Preliminary review of 2022 operating budget includes \$10 million in estimated COVID-19 impacts but does not include any potential mitigation actions that could be incorporated in the budget to reduce the impact on the tax levy.
- The preliminary forecast assumes an inflationary increase on all rates and fees. Staff are recommending that user fees be increased by 2% to ensure they continue to cover normal inflationary cost increases while the COVID recovery continues.
- In order to achieve Council's direction to bring the overall increase in line with inflation of 2.00%, reductions of approximately \$6.4 million are required.
- Over the next several months, staff will be working on their submissions with the focus on refining their operating budget and the estimated COVID-19

impacts. The staff recommended budget will include measures to achieve Council's direction for an overall increase in line with inflation.

- Staff will also review and update the 2022-2031 capital forecast including project budgets, timing and the operating impacts from capital projects.
- The staff recommended budget presented to the Budget Committee in November will be aligned with Council's strategic priorities and presented to show spending aligned with key areas of focus.

BACKGROUND:

The 2022 budget process is now underway. As part of the 2020 budget recommendations, Council approved the following guideline for the preparation of the 2021 to 2023 budget:

That, in addition to Council's existing direction to keep overall property taxes in line with inflation for 2020, that the 2021, 2022 and 2023 budgets be prepared keeping overall property tax increases in line with inflation.

This report provides a preliminary update on the tax levy increase based on the guideline.

COMMENT/OPTIONS:

Council gave staff direction to prepare the budget with an overall increase in line with inflation. Based on current conditions, the mean annual inflation forecast from bank economists is 2.00% for 2022. To achieve an overall increase of 2.00%, using the Region's forecasted increase of 2.30% and assuming no increase for Education, the town's portion of the tax levy increase would need to be capped at 2.75% after assessment growth as shown below.

2022 Residential Total Tax Impact with 2% inflation target			
	Share of Tax Bill	Tax Levy Increase	Tax Bill Increase
Town	41.6%	2.75%	1.14%
Education	21.2%	0.00%	0.00%
Region	37.2%	2.30%	0.86%
Total Tax Bill Increase			2.00%

Based on preliminary review of the 2022 operating budget, the total increase for the town's portion of the tax levy is currently estimated at 5.70% after assessment growth. When combined with the assumed increases for the Region and Education, the overall tax levy increase is currently estimated at 3.23% as shown below. In order to achieve Council's direction to bring the overall increase in line with inflation of 2.00%, reductions of approximately \$6.4 million are required.

2022 Preliminary Residential Total Tax Impact			
	Share of Tax Bill	Tax Levy Increase	Tax Bill Increase
Town	41.6%	5.70%	2.37%
Education	21.2%	0.00%	0.00%
Region	37.2%	2.30%	0.86%
Total Tax Bill Increase			3.23%

The COVID-19 pandemic has had a serious impact on the 2021 budget and the impacts are expected to continue into 2022. Based on the preliminary review and assumptions on how the pandemic may continue to impact operations in 2022, we are estimating COVID-19 impacts in the range of \$10 million based on the following assumptions:

- Recreation and Culture revenue based on 75% of normal participation levels
- Transit revenue based on 60% of normal ridership volumes
- Parking revenue based on 85% of normal levels
- Parks revenue based on 75% of normal rental levels
- The assumptions are meant to provide a high level estimate of the potential impact to revenue but do not include any potential mitigation actions that could be incorporated in the budget to reduce the impact on the tax levy

The following chart shows 2022 preliminary budget drivers with these assumptions:

- Revenue adjustments include inflation (2%) applied to user fees
- 1% capital levy increase is included for 2022
- Net 2021 COVID-19 impacts have all been reversed
- Estimated 2022 COVID-19 impacts of \$10 million
- Assessment growth of 1%
- Tax Stabilization funding to offset 2022 COVID-19 impacts is not included but will be considered in order to keep overall property tax increases in line with inflation as per Council direction

2022 Preliminary Budget Drivers	Overall Share of Tax Bill	\$ Increase (million)	% Increase on the Tax Levy	Impact on Total Tax Bill
Economic/Step Increases Salaries & Benefits		\$ 3.54	1.64%	0.68%
Other Inflationary Impacts		\$ 0.83	0.39%	0.16%
Capital and Growth Impacts		\$ 3.19	1.48%	0.62%
Revenue Adjustments		\$ (1.84)	-0.86%	-0.36%
Capital Levy		\$ 2.15	1.00%	0.42%
Total Base Operating Budget		\$ 7.88	3.66%	1.52%
Net 2021 COVID-19 Impacts Reversed		\$ (3.44)	-1.60%	-0.67%
2022 Preliminary COVID-19 Impacts		\$ 10.00	4.64%	1.93%
Total Operating Budget including COVID-19		\$ 14.43	6.70%	1.27%
2022 Assessment Growth		\$ (2.15)	-1.00%	-0.42%
Total Town of Oakville*	41.6%	\$ 12.27	5.70%	2.37%
Region of Halton**	37.2%		2.30%	0.86%
Education	21.2%		0.00%	0.00%
Total *				3.23%

*Exclusive of reassessment impacts

**Forecasted Region of Halton total tax increase

Over the next several months, staff will be working on their submissions with the focus on refining their operating budget and the estimated COVID-19 impacts. The staff recommended budget will include measures to achieve Council's direction for an overall increase in line with inflation. Staff will also review and update the 2022-2031 capital forecast including project budgets, timing and operating impacts from capital projects.

As noted above, an inflationary increase on rates and fees has been assumed in the preliminary budget forecast. It is anticipated that 2022 will be very much focused on recovery as we slowly resume normal operations based on health and safety regulations and as the economy recovers from the impacts of the pandemic. Due to the anticipated gradual resumption to normal program participation levels it would be difficult to return to the rates and fee policy of maintaining Council approved cost recovery ratios. As a result it is recommended that for 2022 rates and fees be increased by inflation to ensure they continue to cover normal inflationary impacts to program costs and not add further burden to the tax levy. If the fees were kept at 2021 rates, there would be a further \$1.1 million or 0.51% impact on the town tax levy.

The 1% capital levy is an important component of the town's budget. It was implemented in 1997 and has allowed the town to maintain its infrastructure in a state of good repair without the requirement to use debt financing. In 2021 the capital levy was suspended as a temporary mitigation measure. The forecast presented in this report includes the restoration of the levy for 2022 and an additional amount to replace the 2021 levy. This is the starting point; as we work

through the budget process and determine funding needs for the updated capital forecast as well as the mitigation requirements to bring the budget in line with inflation, staff will make a final recommendation on replacing the foregone 2021 levy.

The staff recommended budget presented to the Budget Committee in November will be aligned with town's strategic priorities and Council's key focus areas. Key initiatives and capital projects will be prioritized based on the priorities identified as part of the refresh of Council's strategic plan, areas of focus and through the asset management framework. The overall prioritization based on timing considerations, resources and financial affordability will be reflected in the final budget documents.

The following are key dates in the 2022 budget process:

November 16 – Release/overview of 2022 operating and 2022-2031 capital forecast
November 18 – Commissioner presentations of program budgets
November 30 – Public delegations
December 02 – Public delegations
December 14 – Budget Committee deliberations
December 20 – Council approval

CONSIDERATIONS:

(A) PUBLIC

All budget meetings are open to the public and will be streamed online.

(B) FINANCIAL

The approved budget will result in the tax levy increase for 2022.

(C) IMPACT ON OTHER DEPARTMENTS & USERS

All departments participate in the budget process.

(D) CORPORATE STRATEGIC GOALS

This report addresses the corporate strategic goal(s) to:

- Be an Accountable Government.
- Be fiscally sustainable

(E) CLIMATE CHANGE/ACTION

Climate change/action is a key priority of Council. The proposed budget will incorporate climate change initiatives in alignment with this strategic priority.

Prepared by:

Dalibor Stancovici

Manager of Financial Planning and Policy

Recommended by:
Jonathan van der Heiden
Deputy Treasurer and Director of Finance

Submitted by:
Nancy Sully
Commissioner of Corporate Services and Treasurer