



## REPORT

### 2021 BUDGET MEETING

MEETING DATE: JULY 7, 2020

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**FROM:** Acting Commissioner of Corporate Services and Treasurer

**DATE:** June 30, 2020

**SUBJECT:** 2021 Revised Budget Forecast

**LOCATION:**

**WARD:** Town wide

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#### RECOMMENDATION:

1. That the report from the Acting Commissioner of Corporate Services be received.
2. That the policy of adding an annual 1% capital levy to the budget be waived for 2021.
3. That the rates and fees increase for 2021 be tied to inflation.
4. That a Budget Committee meeting be set for September 15 at 2 pm to receive an update on the 2021 budget.

#### KEY FACTS:

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

- The first Budget Committee meeting was held June 16. At that meeting the Committee approved an additional meeting to be held July 7 to receive updated information on the potential impacts on the 2021 budget due to COVID-19
- Council approved a guideline of an overall increase in line with inflation for the 2021 budget
- Inflation is currently forecast to be in the 1.7% range in 2021
- Staff have reviewed the assumptions used to prepare the 2021 budget forecast and made revisions where appropriate to reflect the ongoing impact of the pandemic on town revenues
- Based on the review and assumptions the impact is projected to be in the range of \$9 million. This is in addition to the reductions required to meet an overall increase of 1.7%

- The revenue impacts are meant to provide a high level estimate of the potential impact on the town budget but do not include any potential mitigation actions that will be incorporated in the proposed budget to reduce the tax levy impact.
- Based on the revised budget, the forecasted town tax increase for 2021 has risen to 7.24% from 2.81% presented as part of the 2020 budget. Based on the Region of Halton forecasted increase the overall increase would be 3.85%
- Significant reductions will be required to bring the budget in line with Council's guideline
- To help reduce the tax levy increase it is recommended that the 2021 capital levy be foregone, resulting in a reduction of \$2.1 million on the town budget
- It is also recommended that rates and fees be increased by inflation to ensure they continue to cover normal inflationary cost increases
- Further mitigation options will be explored over the coming months, including, mitigation options for departments most affected by revenue shortfalls, a reduction target for all other town departments, potential use of reserves to offset temporary impacts and consideration of a reduction in capital funding budgeted annually in the operating budget
- Staff are recommending that a Budget Committee meeting be held in early September for the Committee to receive an update on the budget and potential reductions for the Committees consideration

**BACKGROUND:**

The first meeting of the 2021 Budget Committee was held on June 16, 2020. At that meeting staff recommended an additional meeting be held on July 7 to allow the Committee to receive updated information on the potential impacts on the 2021 budget due to the lingering effects of COVID-19.

As part of the 2020 budget process a forecast for 2021 and 2022 was provided to the Committee for information on the potential increase projected for those years. Since the forecast was prepared the impact of COVID-19 has required staff to review the assumptions used in its preparation, in particular the impacts on the revenue assumptions for programs with a large user fee or application fee component.

Council directed staff to prepare the 2021, 2022 and 2023 budgets with an overall increase in line with inflation. The impacts related to COVID will require mitigation strategies to achieve Council's direction. This report provides updated information for the consideration of the Budget Committee as well as potential mitigation strategies that can be pursued during budget development.

**COMMENT/OPTIONS:**

Council gave staff direction to prepare the budget with an overall increase in line with inflation. The 2021 forecast assumed an inflation rate of 2%. To achieve an overall increase of 2%, using the Region's 2021 forecasted increase of 2.3% and assuming no increase in education rates, the town's increase would need to be capped at 2.8% after assessment growth.

Current inflation forecasts show inflation projected to be closer to 1.7% for 2021. To achieve an overall increase of 1.7%, assuming the Region's increase remains at 2.3% would require the town increase to be capped at 2.05%. Based on the 2020 forecast this would have required a reduction of approximately \$1.6M.

In a normal budget year this would be the starting point for the development of the 2021 budget. Staff direction would be to identify reductions in expenses or opportunities for increased revenue to bring the budget increase in line with the Council guideline. However, given the impacts currently seen due to the pandemic, staff have taken a close look at the revenue assumptions used in the preparation of the forecast.

Based on the review and assumptions on how the pandemic may continue to impact operations in 2021, we are projecting an impact in the range of \$9 million. In addition to the impacts identified, there is risk that the annual provincial gas tax the town receives will be reduced in 2021 due to the reduction in fuel usage across the province. In 2020 the town will receive \$2.67 million in provincial gas tax of which \$1.9 million is used in the transit operating budget. If the town receives a reduced contribution in 2021 this will further increase the revenue shortfall. The chart below shows the impact on the largest fee supported programs and is based on the following assumptions:

- Transit revenues assume 50% of normal ridership volumes. This assumption will be refined as transit resumes front door boarding and is able to better understand ridership levels.
- Planning, Building and Development Engineering revenues reflect an anticipated reduction in both residential and commercial development activity. The shortfall in Building permit revenue will be offset from the Enterprise reserve. The balance of the shortfall in Building reflects an ongoing trend of a decline of variance applications.
- Recreation and Culture revenue projections assume participation levels of between 50% and 75% depending on the activity. Rentals and memberships are expected to return to normal levels in the second half of 2021.

# 2021 BUDGET MEETING

From: Acting Commissioner of Corporate Services and Treasurer  
Date: June 30, 2020  
Subject: 2021 Revised Budget Forecast

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	2020	2021	\$ Change	% Change	Projected	Revised
	Restated	Requested	from	from	2021	2021
	Budget	Budget	2020	2020	Impact	Budget
Oakville Transit	24,128,800	25,419,900	1,291,100	5.4%	\$ 4,343,300	\$ 29,763,200
Planning Services	2,890,700	2,952,900	62,200	2.2%	\$ 600,000	\$ 3,552,900
Development Engineering	768,700	785,500	16,800	2.2%	\$ 150,000	\$ 935,500
Building Services	201,400	205,100	3,700	1.8%	\$ 197,200	\$ 402,300
Recreation and Culture	18,668,700	19,534,500	865,800	4.6%	\$ 3,946,700	\$ 23,481,200
<b>Total</b>	<b>46,658,300</b>	<b>48,897,900</b>	<b>2,239,600</b>	<b>4.8%</b>	<b>\$ 9,237,200</b>	<b>\$ 58,135,100</b>

The July 6 COVID financial update report identified revenue shortfalls in Parks due to reduced sports field use anticipated for 2020. Parking revenues will also be below budget in 2020 due to the waiving of parking fees during the pandemic. At this time it is too early to tell if there will be impacts on 2021 budgeted revenue in these programs; as a result the revenues have not been adjusted. Staff will review the budgets in these programs over the coming months to determine if an adjustment is required.

Based on the revised budget for the programs identified above, the forecasted tax levy increase on the town share of the budget is 7.24%. The chart below shows the increase by expenditure type as originally forecast as well as after the revisions.

Town of Oakville - 2021 Preliminary Budget	\$ Forecasted Increase	% Increase on Tax Levy	\$ Projected Impact of COVID	% Increase on Tax Levy	\$ Revised Forecasted Increase	% Revised Increase on Tax Levy
Driver:						
Economic/Step Increases Salaries & Benefits	\$ 3,280,500	1.58%	\$ (244,500)	-0.12%	\$ 3,036,000	1.46%
Other Inflationary Impacts (Material, Supplies & Purchased Ser	\$ 1,090,600	0.53%	\$ (900,000)	-0.43%	\$ 190,600	0.09%
Preliminary Revenue Adjustments	\$(1,315,600)	-0.63%	\$ 10,338,300	4.99%	\$ 9,022,700	4.35%
Annualization of 2020 Operational Efficiencies	\$ (98,300)	-0.05%		0.00%	\$ (98,300)	-0.05%
<b>Sub-total Existing Base</b>	<b>\$ 2,957,200</b>	<b>1.43%</b>	<b>\$ 9,193,800</b>	<b>4.44%</b>	<b>\$12,151,000</b>	<b>5.86%</b>
Operating Costs for New Infrastructure/Growth	\$ 3,898,400	1.88%		0.00%	\$ 3,898,400	1.88%
Tax Stabilization Funding Removed		0.00%		0.00%	\$ -	0.00%
2021 Assessment Growth	\$(2,072,900)	-1.00%		0.00%	\$(2,072,900)	-1.00%
<b>Total Base Operating Budget</b>	<b>\$ 4,782,700</b>	<b>2.31%</b>	<b>\$ 9,193,800</b>	<b>4.44%</b>	<b>\$13,976,500</b>	<b>6.74%</b>
Capital Levy	\$ 2,072,900	1.00%		0.00%	\$ 2,072,900	1.00%
Service Enhancements	\$ 564,600	0.27%		0.00%	\$ 564,600	0.27%
<b>Prior Years Deferred Assessment Growth</b>	<b>\$(1,600,000)</b>	<b>-0.77%</b>		<b>0.00%</b>	<b>\$(1,600,000)</b>	<b>-0.77%</b>
<b>Total Town of Oakville*</b>	<b>\$ 5,820,200</b>	<b>2.81%</b>	<b>\$ 9,193,800</b>	<b>4.44%</b>	<b>\$15,014,000</b>	<b>7.24%</b>

The chart below shows the overall tax increase assuming a town increase of 7.24% and the Region of Halton forecasted increase of 2.3% for 2021.

Residential Total Tax Impact			
Combined Overall Tax Impact based on 2% Inflation			
	Portion of Total Tax	Increase	Total Tax Increase
<b>Town</b>	41.3%	7.24%	2.99%
<b>Education</b>	21.6%	0.0%	0.0%
<b>Region</b>	37.1%	2.30%	0.85%
<b>Increase on Total Tax Bill</b>			<b>3.85%</b>

Based on the revised forecast for 2021, a significant reduction in expenditures or new revenues would be required to achieve Council's direction. The Region's actual tax levy increase will also impact the overall tax increase and the reductions to the town budget required to achieve an overall increase in line with inflation.

The chart below shows the reductions required to bring the overall increase in line with inflation (1.7%) under the following assumptions:

- Current projected increase for town and region
- Assuming region increase in line with inflation and
- Assuming no tax levy increase for the town and region

Residential Total Tax Impact									
Combined Overall Tax Impact based on 2% Inflation				Town Increase based on Budget Guidelines		Town Increase Region Increase 1.7%		Increase for Town and Region 0%	
	Portion of Total Tax	Increase	Total Tax Increase	Increase	Impact on Total Bill	Increase	Impact on Total Bill	Increase	Impact on Total Bill
<b>Town</b>	41.3%	7.24%	2.99%	2.05%	0.85%	2.59%	1.07%	0.00%	0.00%
<b>Education</b>	21.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Region</b>	37.1%	2.30%	0.85%	2.30%	0.85%	1.70%	0.63%	0.00%	0.00%
<b>Increase on Total Tax Bill</b>			<b>3.85%</b>	<b>1.70%</b>		<b>1.70%</b>		<b>0.00%</b>	
<b>Reductions Required to Meet Guideline</b>				<b>-\$10,764,619</b>		<b>-\$9,645,264</b>		<b>-\$15,014,021</b>	

### Mitigation Options

The reductions required are based on the revenue assumptions outlined in this report. 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 will be incorporated in the budget to reduce the impact on the tax levy. It is expected that

the program areas with the largest increase will incorporate changes to program delivery to help mitigate the impact on the 2021 budget.

Other options for consideration include the elimination of the 2021 capital levy, an inflationary increase to rates and fees, reduction targets for program budgets, the use of reserves to offset temporary impacts and a reduction in capital funding included in the operating budget. These options are not without consequences on service levels as reductions of the magnitude required to meet an overall increase in line with inflation cannot be offset without a significant reduction in spending.

There are several service reviews currently underway. These include the Facility Services Review, the Recreation Services Review, the Call Centre Consolidation and the Fleet Review. Efficiencies identified through these reviews will be incorporated in the budget as they are achieved. The 2021 budget is expected to include early efficiencies from some of the reviews which will also help mitigate the budget increase.

One of the mitigation steps taken this year to preserve cash flow during the pandemic was the deferral of \$71 million in capital projects. This resulted in significant funding being returned to reserves. It is expected that many of these projects will be re-budgeted in 2021 and the reserve funding will be used to fund the projects. As a result there is an opportunity to forego the capital levy in 2021 which would result in a reduction to the tax levy increase of \$2.1 million.

User fees are an important component of town revenues. The town has an approved rates and fees policy which is used to set fees with cost recovery ratios set based on the type of program and community benefit. The 2021 budget will reflect costs and reduced participation levels due to the ongoing effects of COVID-19. It is not recommended that program fees be increased to maintain current cost recovery ratios as the impacts are seen as temporary. Instead, it is recommended that 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.

While the departments most impacted by COVID related revenue shortfalls will look for ways to mitigate the impact on the tax levy, all departments will be given reduction targets to further offset the tax levy increase. Particular focus will be on discretionary spending that can be reduced or eliminated. There may also be an opportunity to strategically use reserves in anticipation of efficiency savings from the service reviews underway.

The last option for consideration is a reset of the capital funding budgeted annually in the operating budget. The funding envelope is used to fund debt charges and capital projects. It increases each year by the capital levy. With the recommendation

to forego the levy in 2021 funding would remain at 2020 levels. If we were to reduce the funding envelope for capital it would result in a reset on the capital budget as it would be a permanent reduction in capital budget funding.

This option will require significant analysis to ensure recommendations do not negatively impact our asset management plan and would focus on areas of spending that have increased substantially over past years that have achieved the desired results and now provide an opportunity to reduce the annual spend. Staff will also be directed to look at discretionary spending in the capital budget that can be reduced or eliminated. As this option is considered we will also need to be cognizant of the potential opportunity for infrastructure stimulus funding that may become available through federal programs to assist in stimulating the economy post pandemic. With a reduced funding envelope it will impact the amount of funding available for the town share of potential stimulus programs and may impact what projects can be put forward as shovel ready.

### Conclusion

The pandemic has had a serious impact on the 2020 budget and the impacts are expected to continue into 2021. In addition to the impacts on the town, many ratepayers in Oakville have also felt the impact on their finances. In recognition of this the 2020 tax installment dates were extended and penalty and interest has been waived to the end of the year. It is not recommended that this tax relief continue into 2021 as it would have a \$3 million budget impact. Taxpayers always have the opportunity to delay payment of their taxes in a given year as long as they do not let the property go three years in arrears. While this will attract penalty and interest charges it is an option for anyone facing temporary financial difficulties.

The forecast presented in this report outlines the order of magnitude of the potential revenue shortfall for 2021. To mitigate the impacts staff are recommending to the Budget Committee that the 2021 capital levy be foregone and rates and fees be increased in line with inflation. These steps will help mitigate the impacts but will not fully close the gap. Program areas most impact by the pandemic will be developing mitigation options to help offset the shortfalls as much as possible and all departments will be given reduction targets to further assist in reducing the tax levy. Due to the size of the potential gap, these steps are not expected to fully bring the budget in line with Council's direction for an overall increase in line with inflation.

The other options discussed in the report will be considered during budget preparation over the next two months. Staff are recommending that we come back to the Committee in early September with an update on the budget and potential reductions for the Committee's consideration.

**CONSIDERATIONS:**

**(A) PUBLIC**

All budget meetings are open to the public.

**(B) FINANCIAL**

The approved budget will result in the tax levy increase ratepayers see on their 2021 final tax bills.

**(C) IMPACT ON OTHER DEPARTMENTS & USERS**

All departments participate in the budget process.

**(D) CORPORATE AND/OR DEPARTMENT STRATEGIC GOALS**

This report addresses the corporate strategic goal to:

- be accountable in everything we do
- be fiscally sustainable

**(E) COMMUNITY SUSTAINABILITY**

The budget addresses the pillar of economic sustainability.

Prepared by:  
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