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2023 Preliminary Draft Capital and Rate-Supported Operating Budgets Staff Report to Council

Report Number: 2023-09

Department(s): Financial Services

Author(s): Andrea Tang, Manager, Finance & Accounting / Deputy Treasurer

Meeting Date: February 13, 2023

Recommendations

1. That the report entitled 2023 Preliminary Draft Capital and Rate-Supported Operating Budgets dated February 13, 2023 be received; and,
2. That subject to any additional direction from Committee, the proposed Capital Budget be incorporated into the Draft Budgets to be presented to Committee of the Whole on March 27, 2023; and,
3. That the proposed list of Capital Projects be included in the Capital Program for 2023, subject to changes that may be made by Council during the year; and,
4. That subject to any additional direction from Committee, the proposed Rate-Supported Operating Budgets be incorporated into the Draft Budgets to be presented to Committee of the Whole on March 27, 2023; and,
5. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

The preliminary draft Capital Budget is developed with consideration for both operational and financial capacity to deliver the proposed Capital Program. Furthermore, the Asset Management Plan and Development Charge (DC) Background Study are referenced when establishing the Capital Budget.

Water & Wastewater rate was increased by 3.8% and Stormwater rate was increased by 9.0% as outlined in their respective Council-approved financial plans.

2023 fees and charges were approved by Council in December 2022 which took effect on January 1, 2023.

Recommendations from the Fiscal Strategy have been implemented where feasible.

Purpose

The purpose of this report is to obtain Council's direction on the overall Capital Budget, including specific projects in the Capital program, and Rate-Supported Operating Budgets for Water, Wastewater, Stormwater and Building Services.

Background

The Preliminary 2023 Draft Budgets were presented at the Special Committee of the Whole (CoW) meeting on January 30, 2023, a starting point for Council deliberations and review.

At the meeting, Council approved the 2023 capital spending authority for "Trails & Multi-Use Path" in the amount of \$1,920,000 in advance of the 2023 Budget approval in order to meet construction timelines for the Northwest Quadrant trails. The proposed capital budget was presented at \$41,560,700 which included the standard component at \$26,000,000 and major projects at \$15,560,700.

The rate-supported operating budgets for water, wastewater and stormwater were developed based on the respective Council-approved financial plans. In December 2022, Council approved the 2023 rates with a 3.8% increase for water and wastewater, and a 9.0% increase for stormwater effective January 1, 2023.

Central York Fire Services (CYFS) Joint Council Committee (JCC) recommended the proposed 2023 CYFS budget at the January 10, 2023 JCC meeting. Aurora Council reviewed and had no comments on the proposed budget on January 16, 2023.

Newmarket Library Board endorsed the capital decision packages being brought forward for consideration at their board meeting on May 20, 2022.

Discussion

This report outlines further details on the 2023 Capital, Water & Wastewater and Stormwater Operating budgets.

2023 Capital Budget

The 2023 Capital Budget of \$41.6 million presented at the January 30, 2023 CoW includes the following revisions to the 2023 pre-approved Capital Spending Authority

(CSA) from the 2022 Budget process. The changes are based on revised project delivery timelines:

- Mulock Drive Multi-Use Path Feasibility and Design Study – defer \$1.5 million to 2024 (2023 - from \$3.3 million to \$1.8 million)
- Bridges and Culverts Program – defer \$2.5 million to 2024 (2023 - from \$3.7 million to \$1.2 million)
- Active Transportation – defer full amount \$0.2 million to 2024
- Harry Walker Parkway East Sidewalk – defer full amount \$0.1 million to 2024
- Roof Replacement at Various Facilities – defer \$1.4 million to 2024 (2023 - from \$2.1 million to \$0.7 million and pre-approved 2024 CSA of \$0.3 million to 2025)

As outlined in the 2023 Preliminary Draft Budget report, inflation has a significant impact on the 2023 Budget. Construction Price Index (non-residential) has increased by 30% since 2020 which leads to higher project costs and a need for an increase to the contribution to Asset Replacement Fund (ARF).

Additional funds are being requested due to higher project costs resulting from inflation for projects such as Trails & Multi-Use Paths (pre-approved by Council), Municipal Infrastructure Projects and Bridges & Culverts Program. As well, the standard program has been increased from \$20.0 million to \$26.0 million. The following projects require an increase in the capital spending authority (CSA) to account for inflationary impact:

- Bridges & Culverts:
 - Increase the pre-approved 2023 CSA (from the 2022 budget process) by \$0.2 million from \$1.2 million to \$1.4 million. This will reduce the unallocated provision from \$3.0 million to \$2.8 million;
 - Increase the pre-approved 2024 CSA by \$1.8 million from \$2.5 million to \$4.3 million;
 - Funding source for the project is ARF.
- Mulock Park (as outlined in the Information Report entitled “Mulock Park Budget Update”):
 - Increase the pre-approved 2023 CSA by \$3.0 million from \$11.5 million to \$14.5 million;
 - Increase the pre-approved 2024 CSA by \$3.0 million from \$11.5 million to \$14.5 million;
 - Increase the pre-approved 2025 CSA by \$2.0 million from \$11.5 million to \$13.5 million;
 - Funding sources for the entire project are Development Charges (DC) and developer contributions.

For construction projects, Staff aims to follow the best practice of requesting CSA for design first, and making a request for construction based on detailed information as design advances. This way, there will be more precision on the construction costs after design is completed. The following two projects are 2023 new requests for construction after design CSA were approved in 2022:

- Mulock Off-Site Parking (as outlined in the Information Report entitled “Mulock Park Off-Site Parking Budget Update”):
 - Increase the pre-approved 2023 CSA by \$1.6 million from \$0.1 million to \$1.7 million;
 - Include new 2024 CSA at \$1.4 million to recognize construction costs;
 - Funding sources for the entire project are DC and Community Benefit Charges (CBC);
- Mulock House Adaptive Re-Use (as outlined in the Information Report entitled “Mulock House Budget Update”)
 - Increase the 2023 CSA by \$1.0 million from \$0.3 million to \$1.3 million;
 - Additionally, reallocate \$1.0 million previously allocated to Mulock House State of Good Repair, to Mulock House Re-Use 2023 CSA in support of verandah and foundation repair and upgrades.
 - Include new 2024 CSA at \$5.2 million and 2025 CSA at \$4.8 million for construction;
 - Funding sources for the entire project are Building Canada Fund (Federal Grant), developer contributions and Reserve Fund.

Based on the above changes, the 2023 capital program is currently at \$45.4 million. With the unallocated provision at \$2.8 million, the 2023 CSA is \$48.2 million. Funding distribution to support the 2023 capital program is outlined in the table below.

| Category | ARF (\$) | DC (\$) | Other Reserve & Reserve Funds (\$) | Grant (\$) | Unallocated Provision (\$) | Total (\$) |
|--------------|-------------------|-------------------|------------------------------------|------------------|----------------------------|-------------------|
| Replacement | 10,597,350 | | | 4,388,000 | | 14,985,350 |
| Growth | | 25,540,350 | | | | 25,540,350 |
| Other | | | 3,535,000 | 1,300,000 | | 4,835,000 |
| Unallocated | | | | | 2,800,000 | 2,800,000 |
| Total | 10,597,350 | 25,540,350 | 3,535,000 | 5,688,000 | 2,800,000 | 48,160,700 |

The proposed 2023 capital program will have an incremental operating budget impact of \$235,700 which has been incorporated into the respective operating budgets.

Some of the 2023 capital projects will continue into 2024, 2025 and beyond. CSA for 2023 and future years are as follows (Refer to Appendix A for details):

| Year | CSA (\$) |
|---------------|--------------------|
| 2023 | 48,160,700 |
| 2024 | 61,479,000 |
| 2025 & beyond | 26,880,000 |
| Total | 136,519,700 |

2023 Rate-Supported Operating Budgets

A. Water & Wastewater

The 2023 Water & Wastewater rate was increased by 3.8% as per the Council-approved Water & Wastewater Financial Plans. The increase was effective January 1, 2023.

The 2023 rate accounts for the following:

- Region's increase of 3.3%; and
- Requirements to support day-to-day operations; and
- Contribution to ARF for future asset replacements totaling \$6.30 million.

Below outlines the preliminary draft 2023 Water & Wastewater Operating Budget

| | Water (\$) | Wastewater (\$) | Total (\$) |
|---------------------------|-------------------|------------------------|-------------------|
| Revenues | 21,319,674 | 24,914,938 | 46,234,612 |
| Expenditures | | | |
| Regional Costs | 11,137,056 | 16,978,111 | 28,115,167 |
| Operating Costs | 5,300,418 | 1,604,618 | 6,905,036 |
| Support Costs | 1,303,517 | 1,198,000 | 2,501,517 |
| Contribution to ARF | 3,400,000 | 2,900,000 | 6,300,000 |
| Transfer to Reserve | 178,683 | 2,234,209 | 2,412,892 |
| Total Expenditures | 21,319,674 | 24,914,938 | 46,234,612 |
| Net | 0 | 0 | 0 |

Based on an annual consumption of 200 cubic metres, the 2023 annual increase is \$50.00.

B. Stormwater

The 2023 Stormwater rate was increased by 9% as per the Council-approved Stormwater Financial Plan. The increase was effective January 1, 2023.

The 2023 rate accounts for expenditures such as wages and benefits, CCTV program, catch basin cleaning and maintenance on stormwater ponds.

Below outlines the preliminary draft 2023 Stormwater Operating Budget:

| | Stormwater (\$) |
|---------------------|------------------------|
| Revenues | 3,036,520 |
| Expenditures | |
| Operating Costs | 1,428,572 |
| Support Costs | 220,461 |
| Contribution to ARF | 800,000 |
| Transfer to Reserve | 587,487 |
| Total Expenditures | 3,036,520 |
| Net | 0 |

Based on a 465 square metre lot, the 2023 annual increase is \$4.58.

C. Building Services

Effective January 1, 2023, Building fees were increased by 2.5% which were approved by Council in December 2022.

Below outlines the preliminary draft 2023 Building Services Budget:

| | Building Services (\$) |
|--------------------|-----------------------------------|
| Revenues | 1,980,191 |
| Expenditures | |
| Operating Costs | 2,217,747 |
| Support Costs | 625,293 |
| Draw from Reserve | (862,849) |
| Total Expenditures | 1,980,191 |
| Net | 0 |

Conclusion

The proposed 2023 CSA is now revised to \$48.2 million. The Q4 2022 Financial Update report will address 2022 capital projects that will continue in 2023 for project completion. At this time, there is an unallocated provision of \$2.8 million to address the potential carryover projects from 2022 and in-year new capital requests.

Financial Plans for Water, Wastewater and Stormwater are being updated to incorporate inflationary impact and updated replacement costs from the Asset Management Plan. A report on the updated Financial Plans is targeted to be tabled to CoW in Q2 2023.

Upcoming dates:

- March 6 Special CoW – review of the 10-year Recreation related Capital Plan
- March 20 Special CoW – review of the Tax-Supported Operating Budget; and
- March 27 CoW - presentation of the Draft 2023 Budget for approval; and
- April 3 – target date for 2023 Budget approval.

Business Plan and Strategic Plan Linkages

The following guiding principles were applied when developing the 2023 Capital and Rate-Supported Operating Budgets that align with Council’s values for service delivery:

- Keep up with inflation and growth;
- Maintain existing assets in state of good repair;
- Establish capital requests based on updated plans such as the DC Background Study and the Asset Management Plan;
- Evaluate capital delivery and capacity to deliver;
- Increase standard program to account for inflation;
- Include major projects;

- Include unallocated provision to provide flexibility and contingency;
- Develop the Rate-Supported Operating Budgets based on the Council-approved Financial Plans.

Consultation

This report builds on the presentation and report of the Preliminary Draft Budgets to the Special CoW meeting on January 30, 2023.

Senior Leadership Team (SLT) and Operational Leadership Team (OLT) have been consulted throughout the process.

Human Resource Considerations

Not applicable.

Budget Impact

The proposed 2023 capital program is at \$45.4 million and unallocated provision of \$2.80 million which brings the 2023 CSA at \$48.2 million.

The CSA for 2024 and 2025 & beyond are \$61.5 million and \$26.9 million respectively.

The annual increase for water and wastewater is \$50.0 based on annual consumption of 200m³, and stormwater is \$4.6 based on 465 square metre lot.

Attachments

Appendix A – 2023 Recommended Capital Program Summary and Decision Packages

Appendix B – 2023 Deferred Capital Program Summary and Decision Packages

Approval

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Contact

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