

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee

From: Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

Subject: 2023 Mid-Year Operating Budget Monitoring Report

Date: October 3, 2023

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the following actions be taken with respect to the 2023 Mid-Year Operating Budget Monitoring Report:

- a) The 2023 Operating Budget Mid-Year Monitoring Report for the Property Tax Supported Budget, Water Budget, and Wastewater and Treatment Budget **BE RECEIVED** for information. An overview of the corporate projections are outlined below, noting that the year-end positions could fluctuate based on factors beyond the control of Civic Administration:
 - i) Property Tax Supported Budget projected surplus of \$18.0 million.
 - ii) Water Rate Supported Budget projected surplus of \$5.5 million.
 - iii) Wastewater and Treatment Rate Supported Budget projected surplus of \$3.7 million.

It being noted that Property Tax, Water, and Wastewater & Treatment Budget surplus will be allocated in accordance with the Council Approved Surplus/Deficit Policy.

Executive Summary

This report provides a summary of the projected 2023 year-end operating results for the Property Tax Supported Budget, the Water Rate Supported Budget and Wastewater and Treatment Rate Supported Budget.

The Property Tax Supported Budget is projecting a surplus of \$18.0 million. The surplus is primarily driven by higher than anticipated investment revenue due to higher interest rates and blue box transition revenue from 50% municipal funding to 100% industry responsibility.

The Water Rate Supported Budget is projecting a surplus of \$5.5 million primarily from higher than anticipated consumption-based revenues in the residential sector and growth in the City.

The Wastewater and Treatment Rate Supported Budget is projecting a surplus of \$3.7 million. Similar to the Water Budget, this is driven by higher than anticipated consumption-based revenues in the residential sector and growth in the City.

The Municipal Council approved Surplus/Deficit Policy provides for the allocation of Property Tax, Water, and Wastewater and Treatment year-end surplus, if realized. Application of year-end surplus in accordance with the Surplus/Deficit Policy benefits the 2024 to 2027 Multi-Year Budget development process through reduced future debt issuances, one-time contributions to address future infrastructure needs and one-time contributions to the Community Investment Reserve Fund to be used as a funding source at the discretion of Municipal Council.

Linkage to the Corporate Strategic Plan

Council's 2023 to 2027 Strategic Plan for the City of London identifies 'Well-Run City' as a strategic area of focus. The City of London's Multi-Year Budget development and monitoring is a strategy to align financial resources with Council's Strategic Plan and to maintain London's finances in a transparent, sustainable, and well-planned manner, incorporating intergenerational equity, affordability and environmental, social, and governance considerations. On a semi-annual basis, through the Operating Budget Monitoring Report process, Civic Administration measures the results achieved against approved budgets, and recommends appropriate adjustments in line with City policies and practices. This exercise ensures the operating budget is continuously monitored and if needed, amended to be reflective of the City's Strategic Plan.

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

Corporate Services Committee, meeting on April 11, 2023, Agenda Item 2.1, 2022 Year-End Operating Budget Monitoring Report
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=98450>

2.0 Discussion and Considerations

Budget monitoring is a key component for the governance and accountability process of the 2020 to 2023 Multi-Year Budget. As part of the Multi-Year Budget for the Corporation of the City of London (the "City"), the budget monitoring and reporting process ensures that Council and the community are provided with the information to understand actual and projected spending against the budget.

Each year Civic Administration will submit two monitoring reports to Council, the Operating Budget Mid-Year Monitoring Report and Operating Budget Year-End Monitoring Report. In addition to these two reporting cycles, once per year the multi-year budget is updated through the Annual Budget Update (refer to **Appendix B** for the budget cycle). The monitoring reports and annual budget updates inform Council and the community of the City's progress towards achieving the approved multi-year budget targets.

The purpose of this report is to:

- Provide an overview of the projected financial results of the operating budgets for the Property Tax Supported Budget and Water and Wastewater and Treatment rate supported budgets.
- Provide a summary of emerging issues that may impact the 2024 to 2027 Multi-Year Budget.

3.0 Financial Impact/Considerations

3.1 2023 Property Tax Supported Operating Budget Monitoring

The City is projecting to end the year in a surplus position of \$18.0 million for the Property Tax Supported Budget. Table 1 provides a summary breakdown of the projected year-end position.

Table 1 – Key Factors Impacting the Projected Year-end Position (\$ millions)

Contributing Factor	Surplus/ Deficit	% of Total Gross Budget
Financial Management component - Investment revenue surplus - Higher interest rates and higher average cash balances than budgeted. These savings are in addition to the \$1.4 million tax levy reduction from investment revenue approved as part of the 2023 Annual Budget Update. The Bank of Canada has raised its overnight target rate from 0.25% in March 2022 to 5.0% in July 2023, rates that are significantly higher than was originally budgeted as part of the 2020 to 2023 Multi-Year Budget.	\$14.4m	1.3%
Garbage & Recycling component - Green Bin surplus - delay in receiving collection vehicles delayed the implementation of the Green Bin program. Recycling surplus - primarily driven by the transitioning, as of July 1st, 2023, of the cost of collecting recyclable material (Blue Box) to the producers. These savings are in addition to the \$1.5 million that was an approved tax levy reduction as part of the 2023 Annual Budget Update.	\$5.0m	0.4%
Social & Community Support component - surplus driven by unspent municipal expansion funds in Childcare due to COVID related delays and lower than projected caseload in Ontario Works.	\$3.7m	0.3%
Parking component - Parking meter and lot fees - deficit due to decreased demand for paid parking and increased usage of CORE Promo Code discount	-\$2.6m	-0.2%
All other areas - Development Services, Roadways, Public Support are some of the areas in a deficit position (lower user fee revenue, inflation are main factors), partially offset by areas in a surplus position	-\$2.5m	-0.2%
Total Projected Year-End Position	\$18.0m	1.6%

Subject to rounding

It should be reiterated that the investment revenue surplus is largely attributable to higher than anticipated interest rates. While the investment revenue budget will be reviewed as part of 2024-2027 Multi-Year Budget development, the persistence of this surplus depends largely on economic conditions and Bank of Canada monetary policy outside the control of the City of London.

For a breakdown of the surplus/deficit by service grouping, refer to **Appendix A**.

Allocation of 2023 Projected Surplus

The Council approved Surplus/Deficit Policy provides for the allocation of reported surplus for the Property Tax Supported Budget as follows:

- a) 50% to reduce future debt issuance, it being noted that debt reduction will reduce future years' debt servicing costs;
- b) 25% to the Community Investment Reserve Fund to be allocated at the discretion of Municipal Council, and;
- c) 25% to the Capital Infrastructure Gap Reserve Fund (or other reserve fund to mitigate infrastructure needs at the discretion of the City Treasurer) to address future infrastructure needs.

As per Policy, the projected \$18.0 million surplus, if realized, will be allocated as follows:

- a) \$9.0 million to reduce debt;

- b) \$4.5 million to the Community Investment Reserve Fund, and;
- c) \$4.5 million to the Capital Infrastructure Gap Reserve Fund.

Application of year-end surplus in accordance with the Surplus/Deficit Policy benefits the 2024 to 2027 Multi-Year Budget development process. Using surplus to reduce the amount of future debt issuances indirectly provides tax levy relief through the reduction to future year's debt servicing costs. Contributing funds to the Capital Infrastructure Gap Reserve Fund provides a funding source to manage the infrastructure gap, a strategy outlined in the 2023-2027 Strategic Plan and Corporate Asset Management Plan. The Community Investment Reserve Fund can be utilized as a funding source at the discretion of Municipal Council, including initiatives linked to the Strategic Plan.

3.2 2023 Water Rate Supported Operating Budget Monitoring

The 2023 Water Rate Supported Budget projected surplus is \$5.5 million (Table 2).

Table 2 – 2023 Projected Year-End Position (\$millions)

Water	Budget	Actuals to June 30	% of Budget June 30	Projected Year-End Position	Projected Surplus/Deficit
Revenues	93.7	42.2	45.1%	97.1	3.4
Expenditures	93.7	45.6	48.7%	91.6	2.1
Net Balance Surplus/(Deficit)	0.0	-3.4	N/A	5.5	5.5

Subject to rounding

The projected year-end position is driven by the following:

- \$3.4 million surplus in revenues, primarily from an increase in water usage due to the continued higher than anticipated residential consumption and growth in the City. An extremely dry spring has contributed to higher than anticipated consumption by residential users.
- \$2.1 million surplus in expenditures driven by various operational cost savings. This includes a Purchase of Water surplus due to a previously discovered meter error at the Arva pumping station that resulted in an overstated purchase of water budget that has carried forward to the 2023 budget, which will be adjusted for the 2024 to 2027 Multi-Year Budget.

The Council approved Surplus/Deficit Policy provides for the allocation of reported surplus for the Water Rate Supported Budget as follows:

- a) 50% to reduce Water future debt issuance, it being noted that debt reduction will reduce future years' debt servicing costs, and;
- b) 50% to the Waterworks Reserve Fund to address future infrastructure needs.

As per Policy, the projected \$5.5 million surplus, if realized, will be allocated as follows:

- a) \$2.75 million to reduce authorized debt, and;
- b) \$2.75 million to the Waterworks Reserve Fund.

3.3 2023 Wastewater and Treatment Rate Supported Operating Budget Monitoring

The 2023 Wastewater and Treatment Rate Supported Budget projected surplus is \$3.7 million (Table 3).

Table 3 – 2023 Projected Year-End Position (\$millions)

Wastewater & Treatment	Budget	Actuals to June 30	% of Budget June 30	Projected Year-End Position	Projected Surplus/Deficit
Revenues	117.5	54.2	46.1%	120.3	2.8
Expenditures	117.5	52.3	44.5%	116.6	0.9
Net Balance Surplus/(Deficit)	0.0	1.9	N/A	3.7	3.7

Subject to rounding

The projected year-end position is driven by the following:

- \$2.8 million surplus in revenues. Similar to Water, this is primarily due to the continued higher than anticipated residential consumption and growth in the City.
- \$0.9 million surplus in operational costs. This consists of \$2.4 million in operational cost savings as a result of the installation of more energy efficient equipment and other various operational savings, partially offset by a \$1.5 million deficit in chemical cost overruns from significant cost increases due to inflation.

The Council approved Surplus/Deficit Policy provides for the allocation of reported surplus for the Wastewater and Treatment Rate Supported Budget as follows:

- 50% to reduce Wastewater & Treatment future debt issuance, it being noted that debt reduction will reduce future years' debt servicing costs, and;
- 50% to the Sewage Works Reserve Fund to address future infrastructure needs.

As per Policy, the projected \$3.7 million surplus, if realized, will be allocated as follows:

- \$1.85 million to reduce authorized debt, and;
- \$1.85 million to the Sewage Works Reserve Fund.

4.0 Key Issues and Considerations

4.1. Inflation

As Canada's economy has emerged from the pandemic, inflationary pressures developed in 2021 and 2022 and have persisted through the first half of 2023.

The Consumer Price Index (CPI) is one of the most watched and reported measures in Canada as it relates to inflation. This index represents changes in prices as experienced by Canadian consumers. The CPI target range for the Bank of Canada continues to be one to three percent. Levels of inflation have fallen from a peak of 8.1% in the summer of 2022 to 3.3% in July 2023, however inflation may be more persistent than originally predicted. The Bank of Canada is forecasting for inflation to increase at an annual average of 3.7% in 2023. In comparison, the average annual increase was 6.8% in 2022, 3.4% in 2021, and 0.7% in 2020.

It is important to note that CPI measures the inflationary movements of a basket of goods reflective of consumer spending; it does not necessarily represent the inflationary impacts being faced by municipal governments. A municipality's 'basket of goods' is different than CPI.

While some areas of inflationary pressures have been experienced that exceed what was contemplated in the development of the 2020 to 2023 Multi-Year Operating Budget, these pressures are currently being managed through offsetting savings in the existing overall budget. There is potential for further pressures to be experienced by the City into the future as certain goods and services purchased through established contracts come up for renewal. As development of the 2024 to 2027 Multi-Year Budget has begun, Civic

Administration is assessing the persistence of inflationary impacts on the City's operating budget and inflationary impacts will be considered in the upcoming 2024 to 2027 Multi-Year Budget.

With respect to inflationary pressures on capital expenditures, please refer to the 2023 Mid-Year Capital Budget Monitoring Report.

4.3. 2024 to 2027 Emerging Issues

Several services have identified potential service delivery pressures that may impact expenditures/revenues in the 2024 to 2027 Multi-Year Budget. This section describes some of the more significant issues and the measures taken to mitigate or address these issues. Civic Administration is continuing to actively monitor all emerging issues, including items not listed below. The likelihood of each issue impacting the Multi-Year Budget is rated as high, medium, or low. The definitions of the likelihood measures are as follows:

- High – the likelihood of the issue occurring in 2024 to 2027 is predicted to be greater than 60%
- Medium – the likelihood of the issue occurring in 2024 to 2027 is predicted to be between 30% and 60%
- Low – the likelihood of the issue occurring in 2024 to 2027 is predicted to be less than 30%

Legislative:

1. Bill 23 (High Likelihood) – The Ontario Legislative Assembly passed Bill 23, the More Homes Built Faster Act, 2022 on Monday, November 28, 2022. Royal Assent was granted the same day. As described in the April 18, 2023 report to the Strategic Priorities and Policy Committee, several changes have immediate impacts on City services and present new financial pressures.

Although direct impacts from the changes arising from the More Homes Built Faster Act will be mainly associated with the capital budget, base operating budgets for several Service Areas will need to be increased to fund new staff, or hiring priorities will need to be adjusted as position vacancies emerge. Additional funding will also be required for Development Charges exemptions and discounts prescribed in the legislation. Several requirements are still unknown as future regulations will be issued by the Province, the content and timing of which have not been communicated to municipal stakeholders.

What we are doing to mitigate/address the issue: Staff has been working diligently to confirm details on new requirements, adjustments, and prohibitions, and to clarify the timing of when the City will be impacted by the various legislative changes. Where possible, implementation plans have been prepared and operational actions are being taken for emergent requirements.

Staffing needs and associated costs will be further refined as part of the upcoming 2024 to 2027 Multi-Year Budget process. Further, a separate report will be provided to Council in September to recommend the preferred approach to addressing revenue shortfalls associated with mandatory DC exemptions. The Council endorsed approach and refined cost estimates will also inform the upcoming 2024 to 2027 Multi-Year Budget.

2. Bill 93 (High Likelihood) – Impacts from Bill 93, an Act to amend the Building Broadband Fast Act 2021 and the Ontario Underground Infrastructure Notification System Act, 2012, and its legislative changes have significantly increased the City's costs related to providing utility locates through contracted vendor(s). The existing utility locate contract expired in 2023.

What we are doing to mitigate/address the issue: A working group has formed to explore a number of potential options and associated implications. A business case will

be brought forward as part of the 2024 to 2027 Multi-Year Budget to address the financial impacts.

3. Long-Term Care, Housing Stability Services, Middlesex London Health Unit (MLHU) (High Likelihood) – Potential reduction of COVID funding – There are continued COVID-19 expenditures to maintain resident safety for Long-Term Care, despite indications of reduced Ministry funding for this purpose into the future. Similarly for MLHU, dedicated Ministry funding for COVID-19 costs is expected to end for 2024, with an expectation that COVID-19 related activities will become part of health units' ongoing operations. In addition, previously provided funding was made available through the Social Services Relief Fund program to support vulnerable populations through COVID-19. This funding has been relied upon to support operating costs and increases to programming, with no further funding commitments announced for 2023. The City has received additional federal Reaching Home Funding for 2023-2024, which temporarily alleviated the financial pressure to continue to fund the current service levels. However, there is no indication that base funding from the provincial and federal governments will increase.

What we are doing to mitigate/address the issue: Civic Administration is assessing current levels of COVID-19 support and looking at more cost-efficient alternative approaches for Long-Term Care. Priority setting will be required to manage the various public health needs within financial constraints. Civic Administration will also continue to advocate to ensure that our Federal and Provincial partners are aware of the need for stable, predictable funding to mitigate any longer-term impacts from the pandemic, particularly related to supporting vulnerable populations.

4. MPAC Reassessment (Medium Likelihood) – The independent Municipal Property Assessment Corporation (MPAC) completes the property value assessments utilized to calculate each taxpayer's portion of municipal property taxes. Under the Assessment Act, land is valued every four years, with any property value increases phased in over the following four years, and any decreases applied immediately. Tax levy requirements determined by the City are allocated based on the proportion of each property value to the total value of all property in London, inclusive of municipal tax policy decisions.

In 2016, a Property Assessment Notice was mailed from MPAC to all property owners in Ontario. Due to the COVID-19 pandemic, the 2020 Assessment Update was postponed, and property tax has since been calculated using 2016 assessed values (unless there have been changes to a property such as an addition or a change in classification). The Province has announced that 2016 values will be used for the 2024 taxation year as well.

What we are doing to mitigate/address the issue: It should be noted that the municipality does not receive additional tax revenue when the existing properties in the municipality experience an increase in assessed value. Total tax levy requirements are determined by the municipal budget process (this effectively determines the "size of the pie" that taxes will be collected to fund). The percentage that is supported by each property class is determined by tax policy and the relative size of the property class based on assessed value (in other words, "how the pie is to be sliced" between the different property classes such as residential, industrial, commercial, etc.). Tax policy is approved annually by Council separately after budget approval.

Any updates from MPAC or the Province will be monitored by City Administration. The City will continue to educate the community through the budgetary process and tax policy process on the impacts of MPAC and reassessment. It is currently unclear what the impact of the next reassessment will be on the relative tax burden between property classes.

Cost/Revenue Driver:

1. Multiple Services – 2024 to 2027 Multi-Year Budget (High Likelihood) – In addition to maintaining existing service levels, the 2023-2027 Strategic Plan included several strategies that were identified as requiring additional funding to implement. While many strategies can be implemented within existing budgetary resources and/or have other sources of funding, Council may wish to invest additional funds where alternate funding sources are not available. In addition, legislative changes impacting the City may have financial impacts or require further decision making.

What we are doing to mitigate/address the issue:

These items will be addressed as part of the 2024 to 2027 Multi-Year Budget. Additional investments for strategies in the Strategic Plan, whether requiring additional funding or funded through other one-time or non-rate sources, will be supported by a business case in the Multi-Year Budget and will be a decision point for Council. Any new or changed legislation with a financial impact to the municipality to maintain existing service levels will also be presented as a legislated change summary.

2. Municipal Housing & Housing Stability Services (High Likelihood) – Health and Homelessness Summits – Proposed Whole of Community System Response – The Hubs Implementation Plan, which represents a culmination of co-design work with the community and those with lived experience, was detailed in the July 24th, 2023 report to the Strategic Priorities and Policy Committee. The Hubs Implementation Plan identified the details related to the first five (5) Hubs that will represent the first stage of the plan. Civic Administration was directed to undertake a competitive procurement process to select the Lead Agencies and their corresponding locations for the implementation of the first five Hubs and report back with the results and sources of financing for approval, the results of which were articulated in a follow-up report to the Strategic Priorities and Policy Committee on September 25, 2023.

What we are doing to mitigate/address the issue: While some existing base funding is available through the Homeless Prevention Program and one-time funding is available from the London Community Foundation Fund for Change for establishing and operating multiple Hubs, advocacy efforts to seek funding from other levels of government will continue to secure sustainable funding for the system, including the first five Hubs and others to be implemented in the future. Civic Administration will also be launching the Funders Reference Table as part of the Whole of Community Response framework.

Conclusion

The Property Tax, Water, and Wastewater and Treatment Budgets are projecting to end the year in a surplus position. The Property Tax surplus is largely attributable to investment revenue surplus driven by higher interest rates. The Water and Wastewater and Treatment Budgets' surplus are primarily from higher than anticipated residential consumption and growth in the City. The surplus from these three budgets, if realized, will be allocated in accordance with the Council Approved Surplus/Deficit Policy.

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Submitted by: Kyle Murray, CPA, CA, Director, Financial Planning and Business Support

Recommended by: Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

Appendix A – 2023 Projected Year-End Financial Summary

Property Tax Supported Budget (\$ Thousands)

Service Grouping	Gross Expenditure Budget ¹	Non-Tax Levy Revenue Budget ¹	Tax Levy (Net) Budget ¹	Net Budget Actuals to June 30	Projected Net Budget Position	Projected Surplus/Deficit
Centennial Hall	848	657	191	-7	-85	276
Arts, Culture & Heritage Advisory & Funding	2,515	0	2,515	1,689	2,570	-55
Museum London	1,927	0	1,927	965	1,927	0
Eldon House	308	0	308	154	308	0
Heritage	1,487	0	1,487	700	1,379	109
Library Services	22,129	0	22,129	11,064	22,129	0
Economic Development	8,983	1,527	7,456	2,479	7,432	24
Community Improvement/BIA	3,124	1,075	2,049	2,507	2,049	0
RBC Place London	678	0	678	339	678	0
Tourism & Sports Attraction	2,175	0	2,175	0	2,175	0
Covent Garden Market	0	0	0	0	0	0
Kettle Creek Conservation Authority	316	0	316	156	312	4
Lower Thames Valley Conservation Authority	72	0	72	73	73	-1
Upper Thames River Conservation Authority	1,727	0	1,727	858	1,717	10
Climate Change & Environmental Stewardship	1,686	355	1,331	410	1,155	176

Service Grouping	Gross Expenditure Budget¹	Non-Tax Levy Revenue Budget¹	Tax Levy (Net) Budget¹	Net Budget Actuals to June 30	Projected Net Budget Position	Projected Surplus/ Deficit
Garbage Recycling & Composting	42,562	16,971	25,591	10,155	20,611	4,980
Neighbourhood & Recreation Services	41,940	24,348	17,592	7,952	17,161	431
Parks & Urban Forestry	16,246	216	16,030	6,611	15,936	94
Building Approvals	9,091	8,486	605	183	570	35
Planning Services	4,013	265	3,748	1,281	3,296	452
Development Services	6,167	3,358	2,809	1,479	3,990	-1,181
Animal Services	3,307	1,205	2,102	346	2,016	86
By-law Enforcement & Property Standards	3,795	2,563	1,232	203	1,838	-605
Emergency Management & Security Services	3,774	67	3,707	2,129	3,732	-25
Fire Services	71,901	326	71,575	33,364	71,174	401
Police Services	141,478	10,047	131,431	67,554	131,431	0
Municipal Housing	20,846	11,063	9,783	7,472	9,783	0
Housing Development Corporation	3,357	0	3,357	0	3,357	0
London & Middlesex Community Housing	14,779	0	14,779	8,873	14,779	0
Long Term Care	27,192	20,914	6,278	6,726	6,187	90
Land Ambulance	29,535	0	29,535	13,182	29,595	-60
Middlesex-London Health Unit	7,345	0	7,345	3,672	7,345	0
Social & Community Support Services	255,564	220,984	34,580	86,123	25,768	8,812

Service Grouping	Gross Expenditure Budget¹	Non-Tax Levy Revenue Budget¹	Tax Levy (Net) Budget¹	Net Budget Actuals to June 30	Projected Net Budget Position	Projected Surplus/Deficit
Parking	4,401	8,380	-3,979	-565	-1,506	-2,472
London Transit Commission	45,837	0	45,837	22,918	45,837	0
Roadways	58,050	7,352	50,698	24,487	51,745	-1,047
Rapid Transit	80	80	0	839	544	-544
Corporate Services	73,690	6,373	67,317	24,713	65,962	1,355
Corporate Planning & Administration	2,301	22	2,279	967	2,102	176
Council Services	5,080	898	4,182	2,119	4,011	171
Public Support Services	12,821	9,216	3,605	2,328	4,194	-589
Financial Management	184,390	44,309	140,081	70,600	133,218	6,863
Total	1,137,515	401,057	736,458	427,097	718,493	17,965

Subject to rounding

Note 1: Budgets includes housekeeping transfers. As authorized by the Municipal Council approved Multi-Year Budget Policy, Civic Administration can approve transfers between accounts that are considered housekeeping in nature. These adjustments primarily include items that are budgeted centrally, and during the year are distributed to various services.

Appendix B – Multi-Year Budget Cycle

The timeline below illustrates when Council will receive the various reports that form the 2020 to 2023 Multi-Year Budget governance and accountability process.

