

Corporate Report

REPORT NUMBER 226-2023-Corporate Services-Office of the City Treasurer

DATE

PREPARED July 7, 2023

FILE

MEETING DATE July 24, 2023

SUBJECT Budget Directions 2024 and Beyond

RECOMMENDATION

WITH RESPECT to Report R 226-2023 (Corporate Services – Office of the City Treasurer), we recommend that City Council direct the City Manager and City Treasurer to prepare the proposed 2024 tax-supported budget with service level changes identified in the report;

AND THAT Administration target a municipal tax levy increase, net of growth, of no more than 6.0%;

AND THAT Administration continue to identify savings for the 2024 proposed budget;

AND THAT approval of the 2024 proposed budget be subject to detailed review and consideration by City Council;

AND THAT the necessary by-laws be presented to City Council for ratification.

EXECUTIVE SUMMARY

This report recommends that City Council direct the City Manager and City Treasurer to prepare the proposed 2024 tax-supported budget with service level changes related to the Digital Strategy, Mandated Organics Program, Transition to Producer Funded Blue Box Program, Affordable Transit Pass Pilot Project, and Recreation & Culture Affordable Access Pilot Project. The estimated impacts of these service level changes have been included in the projected levy increases.

Key factors/assumptions considered in developing the budget projections include:

1. Federal/Provincial funding changes (e.g., change in Thunder Bay District Health Unit Provincial funding ratios);
2. Continued increases of 5% to the tax-supported capital financed by the levy;

3. Wage and benefit related impacts;
4. Projected debenture payments;
5. Temporary debt service savings are reinvested into capital in 2024 in accordance with the City's debt management strategy and then shifted back to debt service in 2025 and 2026 as required;
6. Service level changes for various major initiatives currently in progress;
7. Portion of one-time use of reserve funds in 2023 that were not offset by 2024 reductions;
8. Administration finds efficiencies and reductions within existing budgets to offset general inflation for non-wage related items (excluding utilities and insurance); and
9. Taxation and affordability levels.

Based on the key factors noted above, the projected impact on the municipal tax levy, net of projected real growth, is an increase of 6.0% in 2024, 2.86% in 2025, and 4.28% in 2026.

Given the recent exercise to find operational reductions for 2024 that included service level reductions, efficiencies and new revenues, and given previous efforts to reduce the operating budget, Administration is recommending a target municipal tax levy increase, net of growth, of no more than 6.0%. As noted above, this target already assumes Administration is successful in finding opportunities to offset general inflationary increases for non-wage related items (excluding utilities and insurance).

For every 1% reduction in the tax levy, additional net operational savings of \$2.2 million would be required.

For example:

1. \$1.1 million to realize a 5.5% net tax levy increase;
2. \$2.2 million to realize a 5.0% net tax levy increase; and
3. \$4.4 million to realize a 4.0% net tax levy increase.

If Council directs Administration to target a tax levy increase lower than the 6.0% recommended, Administration recommends the dollar target be split with 40% coming from service level reductions, 40% coming from a reduction to capital and the remaining 20% coming from even more aggressive increases to user fees.

For the 2024 proposed budget, Administration will continue to identify efficiency savings and propose service level reductions to offset the impact of inflation and the service level changes identified in this report. This is a regular part of the work of Administration during budget preparation and review.

There are further opportunities for savings under review, as referenced on June 26, 2023, Report 196-2023 (Corporate Services & Long-Term Care - Financial Services),

Report Back – 2024 Budget Amendments, that identify a number of initiatives and opportunities for potential savings that continue to be investigated or will be underway soon as a result of departmental initiative and/or employee suggestions in response to a call from the City Manager.

Final approval of the budget each year will be subject to City Council's budget review and consideration of the detailed submissions.

DISCUSSION

Consistent with a process that began in 2011, Administration is seeking to establish multi-year budget preparation targets for 2024 through 2026 in advance of the preparation of the 2024 tax-supported budget. The establishment of these targets by City Council is strategic and assists Administration in developing tax-supported budgets for the identified years of 2024 through 2026.

Based on the best information and estimates available at this time, the projected municipal tax levy, net of projected real growth, is an increase of 6.0% in 2024, 2.86% in 2025, and 4.28% in 2026.

Multi-year budget forecasts were last prepared as part of the Long-Term Financial Overview (LTFO) presentation to Committee of the Whole on January 10, 2023. The projections for the total municipal tax levy increase net of growth at that time were 5.38% in 2024, 2.20% in 2025 and 2.98% in 2026.

Administration has updated the municipal tax levy increase projections for the City of Thunder Bay's tax-supported budget for fiscal years 2024 through 2026, incorporating 2024 Council approved budget amendments from the June 26, 2023, Report 196-2023 (Corporate Services & Long-Term Care - Financial Services), Report Back – 2024 Budget Amendments. These projections to date provide context but will be adjusted throughout budget development as more information becomes available.

Administration recommends targeting a 2024 tax levy increase, net of growth, of no more than 6.0%. It should be noted that inflation will continue to impact these estimates and Administration will also continue to find a combination of savings through increased revenues and expenditure reductions to mitigate those impacts.

For every 1% reduction in the tax levy, additional net operational savings of \$2.2 million would be required.

For example:

1. \$1.1 million to realize a 5.5% net tax levy increase;
2. \$2.2 million to realize a 5.0% net tax levy increase; and
3. \$4.4 million to realize a 4.0% net tax levy increase.

If Council directs Administration to target a tax levy increase lower than the 6.0% recommended, Administration recommends the dollar target be split with 40% coming from service level reductions, 40% coming from a reduction to capital and the remaining 20% coming from more aggressive increases to user fees. For context, in order to reach a target of 5.5% net tax levy increase using this approach, this would require a \$456,700 reduction to both service levels and capital in addition to an increase of \$228,350 in overall user fees.

In-year increases in the City's assessment base resulting from growth in assessment (i.e., new construction less appeal decisions), reduce the extent to which tax rates need to increase thereby reducing the burden that the tax levy increase has on existing taxpayers. Growth in assessment from new construction means the total property tax levy is shared amongst a larger assessment base, thereby mitigating increases in the municipal tax rates.

The 2024 projected levy before growth is 6.57%. Growth is expected to reduce the 2024 tax levy by 0.57%.

Assumptions and Estimates

The projections reflect certain assumptions and estimates related to tax-supported budgeted revenue and expenditure trends.

Capital:

1. Increases to base capital financed by the tax levy of 5% through 2026.
2. Additional \$3.2 million in 2024 due to net savings from debt servicing costs, reinvested into capital in accordance with the City's debt management strategy. For this reason, these savings are not projected to impact the levy in 2024 but instead increase the tax supported capital contribution. The savings are due primarily to the retirement of the \$45.0 million Homes Debenture less the estimated additional debt service costs from new debentures and construction financing. The net savings are projected to be temporary as debt service costs are projected to increase in 2025 and 2026 due to the Art Gallery and Victoriaville debentures. As the annual debt costs begin to go back up, the funds reinvested into capital would equally be reduced.
3. Debentured capital will increase by 5% through to 2026.

Departmental/General:

1. Ontario Municipal Partnership Fund grant is projected to remain stable.
2. Assumes a minimum increase of 5% in user fees for 2024.
3. Thunder Bay District Health Unit costs are expected to increase approximately \$1.0 million in 2024 to reflect the changes in the provincial-municipal cost sharing arrangement.
4. Overall net department budget increases at 0% increase for non-wage related expenditures excluding the items noted below.

5. CPP increases due to legislative reform have been estimated at \$215,000 and \$311,500 for 2024 & 2025 respectively.
6. Fuel, electricity, and natural gas are projected to decrease \$50,000 in 2024 and increase \$362,000 in 2025 and \$352,000 in 2026 to reflect the current market price adjusted for inflation, consumption, carbon tax policies and electricity system supply constraints.
7. Insurance premiums are estimated to decrease by \$300,000 in 2024 based on conservative estimates made for the 2023 premium renewal.
8. Insurance claims are estimated to remain consistent with the 5-year average. Increases of 1% thereafter are projected.
9. Operating impacts from prior year approved capital projects are expected to total \$557,100 in 2024.
10. Thunder Bay Police Services expansions of \$1.1 million in 2024, largely due to phased in expansions from the 2023 budget.
11. Phased in expansions from the City of Thunder Bay from the 2023 Budget will result in an increase of \$405,200 for 2024.
12. Impact of \$962,000 from one-time use of Reserves Funds in 2023 that were not offset by approved service level reductions per report 196/2023.
13. Increased software subscription fees of \$490,000 beginning in 2024.

Reserve Fund Contributions/Withdrawals

1. Contribution to the Clean Green & Beautiful Reserve Fund increased by 2% consistent with policy amendments approved by City Council June 25, 2018.
2. Contribution to EMS Vehicle & Equipment Reserve Fund increased by 5% to reflect future capital renewal requirements.
3. Reinstatement in 2024 of \$250,000 to Stabilization Reserve Fund, which is offset by an increase in the Tbaytel dividend.

Service Level Changes:

Service level changes that require FTE expansions will be identified for Council's consideration as part of the 2024 budget process. The following service level changes have been incorporated in the projected 2024 levy increase:

1. Impacts from the recommendations in the Program and Service Review such as Digital Strategy, currently projected at \$200,000 in 2024.
2. As per the Provincial Food and Organic Waste Policy Statement, the City of Thunder Bay will be required to provide curbside collection of food and organic waste to single family dwellings by 2025. City Council has approved the implementation of a Food and Organic Waste (Green Bin) Program for single family households starting in 2025 and multi-family properties in 2026. The Program includes cart-based collection of both garbage and Green Bin waste for single family households. Current estimates based on the City's Program Implementation Plan, indicate that operating costs are approximately \$540,000 in 2024, \$1.5 million in 2025 and \$2.0 million in 2026, with capital requirements of approximately \$4.7 million in 2024 & \$1.6 million in 2025. These costs will be offset with anticipated savings of \$900,000

in 2024 and \$3.0 million in 2025 & 2026 from the transition to 100% Producer Responsibility Funded Blue Box Program.

3. Affordable Transit Pass Pilot Project & Recreation & Culture Affordable Access Pilot Project will begin in 2024 with total anticipated costs of \$231,600.
4. Airport Rebate Program expected to increase budget by \$200,000 in 2025.

Projections and Additional Savings

Report 196-2023 (Corporate Services & Long-Term Care - Financial Services), Report Back – 2024 Budget Amendments, identified a number of initiatives and opportunities for potential savings that continue to be investigated or will be underway soon as a result of departmental initiative and/or employee suggestions in response to a call from the City Manager. This includes:

- Staff vacation purchase plan;
- Asset Management;
- Where appropriate, user fee increases of at least 5% and rounded up to the nearest dollar;
- Internal anti-idling campaign;
- Housing Study with focus on increasing tax assessment density and a further; review to consider development charges in areas of the City and circumstances to be determined;
- Convenience fee for use of credit cards;
- Savings due to implementation of projects through the Digital Strategy; and
- Reinstatement of Employee Suggestion Program to provide employees corporate-wide to contribute ideas for continuous improvement and cost savings.

Final approval of the budget each year is subject to City Council's thorough budget review and consideration of the detailed submissions.

Attachment A provides a 10-year history of the municipal tax levy increases before and net of growth. For comparison purposes, Thunder Bay CPI is also provided in the document. The 10-year average shows the City's net levy within 0.01% of Thunder Bay CPI average. However, the recent levy increases, net of growth, have been less than the Thunder Bay CPI average, most especially in 2021 & 2022.

FINANCIAL IMPLICATION

There are no financial implications resulting from this report.

CONCLUSION

It is concluded that City Council should direct Administration to prepare the proposed 2024 tax-supported budget that targets a municipal tax levy increase, net of growth, of no more than 6.0%.

Administration will continue to identify efficiency savings to be incorporated into the 2024 proposed budget in an effort to not exceed the targeted tax-supported levy increase of 6.0%.

BACKGROUND

Administration has continued to seek guidance from City Council on budget preparation targets every year with the exception of election years.

REFERENCE MATERIAL ATTACHED

Attachment A – History of Municipal Tax Levy Increases

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REPORT SIGNED AND VERIFIED BY

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07/17/2023