



**STAFF REPORT**  
**Financial Planning & Purchasing**

Title: 2019 Budget Strategy & Update  
Report Number: CORP2018-050  
Author: Filipa Reynolds & Brad Witzel  
Meeting Type: Finance & Strategic Planning Committee Meeting  
Council/Committee Date: June 18, 2018  
File: [File]  
Attachments: Appendix A – FC-011 Multiple Year Budget Approval  
Ward No.: [Click here to enter text.](#)

**Recommendation:**

1. That Council receives CORP2018-050 for Information.

**A. Executive Summary**

The objectives of this report are to inform Council of the following:

- The next budget (2019 Budget) is a one-year budget
- The existing Strategic Plan is informing the Business Plans, which are in turn, informing the 2019 budget recommendations
- The 2019 budget will continue to implement the priorities of the strategic plan through a focused and measured approach and with emphasis on addressing contractual/legislated requirements and limiting the introduction of new services
- The City of Waterloo's multi-year budget process is effective, efficient & dynamic
- Feedback from the last budget has resulted in a change to the internal budget committee to drive efficiency and continued sound recommendations
- Improvements being made to the capital budget process are highlighted
- Challenges and opportunities on the horizon are identified
- Update on what budget related work is in progress
- Key budget milestones are included

Approval of the 2019 Operating Budget, and the 2019 Capital Budget & 2020-2028 Capital Forecast is scheduled to take place on February 11, 2019, in the next term of Council.

**B. Financial Implications**

N/A

**C. Technology Implications**

N/A

**D. Legal Considerations**

Staff did not seek legal advice.

**E. Link to Strategic Plan**

(Strategic Priorities: Multi-modal Transportation, Infrastructure Renewal, Strong Community, Environmental Leadership, Corporate Excellence, Economic Development)

This report links to the Corporate Excellence pillar and the Guiding Principle: Fiscal Responsibility within the strategic plan.

**F. Previous Reports on this Topic**

N/A

**G. Approvals**

<b>Name</b>	<b>Signature</b>	<b>Date</b>
<b>Author:</b> Filipa Reynolds		
<b>Author:</b> Brad Witzel		
<b>Director:</b> Filipa Reynolds		
<b>Commissioner:</b> Keshwer Patel		
<b>Finance:</b> Keshwer Patel		

CAO



**2019 Budget Strategy & Update  
CORP2018-050**

## **Background**

The budget process is a tool that allows Council to prioritize programs and services delivered to the community and to prioritize the building of new assets and repairing/maintaining existing assets. Essentially, the budget is the tool to bring core city services and the Strategic Plan to life.

### Council's Strategic Plan

Council's Strategic Plan sets the foundation for the budget process as it identifies the highest priorities for the City and outlines actions necessary to reach those goals. The 2015-2018 Strategic Plan which was approved by Council on June 22, 2015, will continue to guide the development of the 2019 Budget. The next Strategic Plan (2019-2022) will be developed over the course of 2019 and will be the guiding document for the three year budget (2020-2022), as well as the following one year budget (2023).

The 2019 budget will continue to implement the priorities of the existing strategic plan through a focused and measured approach.

### Multi-year Budget Process

The Municipal Act allows municipalities to approve multi-year budgets so long as Council re-affirms the future budgets annually. This multi-year approach is beneficial as it results in administrative efficiencies and stability of long term planning for tax and rate payers and the corporation. At the same time, it is also resilient and adaptive to material changes as reflected in the Multi-year Budget Policy (See Appendix A). The City of Waterloo approved its first multi-year budget in 2008 and as a result, over the past 12 years, the City has undertaken 5 full budget cycles as compared to a traditional annual budget process which would result in 12 full budget cycles.

<b>Cycles</b>	<b>Budget Approval Periods</b>
1	2008-2010
2	2011
3	2012-2014
4	2015
5	2016-2018

Since 2008, the budget has been amended significantly once (2018 budget) with minor amendments occurring in 2013 and 2014. These amendments demonstrate that the multi-year budget policy is providing the necessary flexibility to deal with changes while maintaining the efficiency of a longer term planning process. The City estimates that collectively there are over 10,000 hours saved during a four year Council term as a result of multi-year budgeting. This approach of multi-year budgeting builds capacity in years two and three of a Council term. Council and staff, at various levels and across the organization, are able to focus on what matters most to tax/rate payers and the broader community; delivering services, building and maintaining assets, exploring new partnerships and opportunities with other organizations, and ultimately continuing to build a strong sense of community in Waterloo.

Specifically, this capacity has enabled the ability of finance staff resources to be redeployed for various purposes including; the implementation of Tangible Capital Assets, coordinating grant applications, the development of various plans including; long term financial plan, asset management plan, cemetery business model, parking model, capital year end reporting without adding additional staff resources.

The City of Waterloo has shown leadership in Ontario in the area of multi-year budgeting and other cities often look to Waterloo for insight into establishing a multi-year budget process. This fall, Waterloo Finance staff will be presenting our multi-year process to other municipal finance professionals at the (Municipal Finance Officers Association) annual conference. Some cities have implemented or are considering 4 year budget approvals. As an example, the City of London's most recent budget was a 4 year approval, covering the years 2016-2019.

### Staff Budget Committee

With a view of continuous improvement, Finance staff held budget debrief sessions after the last 3 year budget. One improvement identified was to make the internal deliberation process more efficient. As a result, what was formerly the "OLT Budget subcommittee" was replaced by the "Budget Committee". The former Operational Leadership Team (OLT) Budget subcommittee was made up of various Directors with equal representation from each department, who were tasked with recommending budget decisions to the Corporate Management Team (CMT) on behalf of OLT. While check-ins with CMT occurred throughout the process, it was challenging to react in a timely way to decisions and changes. As a result, the "Budget Committee" was formed to blend CMT & Director representation as follows:

- CMT (all 4 members)
- 1 Director from CAO's office
- 2 Directors from each of IPPW, Corporate Services, and Community Services

For the 2019 Budget, the individuals that make up the Budget Committee are:

1. Tim Anderson, CAO (CMT)
2. Cameron Rapp, Commissioner IPPW & Deputy CAO (CMT)
3. Keshwer Patel, Commissioner Corporate Services, CFO & Treasurer (CMT)
4. Mark Dykstra, Commissioner Community Services (CMT)
5. Steve Ross, Director Legal Services (CAO's office Rep)
6. Scott Nevin, Director Growth Management (IPPW Rep)
7. Phil Quickfall, Director Water Services (IPPW Rep)
8. Tony Iavarone, Director Communications (Corp. Services Rep)
9. Filipa Reynolds, Director Financial Planning & Procurement (Corp. Services Rep)
10. Shayne Turner, Director Municipal Enforcement & Chair OLT (Comm. Services Rep)
11. Richard Hepditch, Fire Chief (Comm. Services Rep)

Ongoing discussions have been occurring with the Budget Committee to lay the framework for the 2019 budget process. Discussions have included, but have not been limited to; overall budget strategy, targets, budget directives, public/council engagement, capital budget envelopes and business plans.

### 2019 Budget & Business Plans

The City of Waterloo is entering a one-year budget and business planning. This has been the approach since the inception of multi-year budgeting at the City, whereby the first year of a Council term is a one-year budget, and the subsequent years of the Council term is a three-year budget (2020-2022).

Business Plans will be developed by applying the existing Strategic Plan as discussed earlier in the report, and consequently, this lens will also be applied to budget recommendations for Council's consideration.

Business Plans provide Council and the public with an understanding of the City's various divisions including:

- the division's mandate
- what services they provide
- public engagement undertaken
- key initiatives for the upcoming budget

### Key Dates

The City-wide budget takes many months to prepare with involvement and coordination involving various staff across the organization. The administration began 2019 budget discussions in mid-2017 with a goal to review forecasts and develop strategy for the process early on. This proactive approach allowed for the review of multi-year variance reports, target setting, and the work to identify realistic expense reductions and revenue opportunities. As 2019 will be the start of a new council term, staff have developed the

budget schedule with a February 2019 budget approval date. Figure 1 provides key milestones during the budget process:

<b>Timeline</b>	<b>Steps</b>	<b>Who</b>
<b>Administration</b>		
June 2017 - Apr 2018	Budget Strategy Sessions including forecasting, operating target setting, capital envelope development	Budget Committee Finance
January 22, 2018	Reserve consolidations approved by Council (report CORP2018-001)	Finance Council
Jan 2018 - August 2018	Budget Launch, Business Plan development, Budget Preparation (documentation), Public engagement development	Budget Committee Finance City Wide Management & Staff
June 18, 2018	2019 Fees & Charges Approval for Tax Base 2019 Rate Approval for Enterprises as follows: - <i>Parking</i> - <i>Building Standards</i> - <i>Cemetery</i> - <i>Business Licensing</i> Budget Update Report 2017 Capital Year End Report	City Wide Management & Staff Finance
Aug 2018 - Sept 2018	Administrative Review / Budget Deliberations Administrative Approval	Budget Committee Finance
Oct 2018 - Nov 2018	Development of Budget Books/documents, Budget Presentations, & communications plan implementation	Finance Communications
<b>Political Review</b>		
April 16, 2018	Council approved reserve reallocations and reserve & financial policy updates via report (CORP2018-011)	Council
Oct 2018 - Nov 2018	Reserve & Reserve Funds Annual Report Participatory Budgeting Report	Council
December 10, 2018	Public Budget Release Public Business Plan Release	Council
December 10, 2018	Enterprise Rate Approval: Water Services, Rental Housing Early Capital Budget Approval	Council
January 14, 2019 January 21, 2019 January 28, 2019	Business Plan Presentations	Council
February 4, 2019	Capital Budget Review	Council
February 11, 2019	<b>Budget Day:</b> Operating and Capital Budget Approval	Council

### Inflationary Index

In April 2017, Council approved that the Core Consumer Price Index (CPIX) be used as a guideline for budget decision making whereby City Staff will present a budget on that basis along with known pressures outside of the recommended budget and further reduction opportunities for Council's decision making. The Budget Committee is working within these parameters to develop a budget for Council's consideration. At this time, the target is to keep base services and operating impacts of capital to approximately two percent and service level changes at an incremental and reasonable level. This approach aligns with the strategy of delivering a focused and measured budget for the first year of Council's new term. This strategy limits the introduction of new services and concentrates on contribution of operating funds to the capital program with an emphasis on asset renewal per approved Council policies, addressing contractual/legislated requirements, incorporating efficiencies, and budget true-ups.

### **Capital Budget Process Improvements**

#### Asset Management Plan & Long Term Financial Plan

The Asset Management plan (AMP) is directly influencing the budget process for the first time. Needs by asset class have been provided by the Asset Management division to influence capital project prioritization.

Council's approval of the reserve consolidations and the approved reallocation of funding through the long term financial plan, have resulted in a greater emphasis on asset renewal and rehabilitation. In turn, envelopes for the consolidated reserves have been adjusted and education provided to staff on new uses of the reserves. For example, the Capital Infrastructure Reinvestment Reserve Fund (CIRRF) was previously used solely for the rehabilitation of roads and facilities. This reserve has since been broadened to include the renewal of all assets. The resulting increased pressure is partially offset by an increased contribution to CIRRF from assessment growth through the re-appropriation of an additional 10%. The Capital Reserve Fund (CRF) was previously used for growth, new, and rehabilitation projects and has been updated to be used only for new or growth related.

#### Capital Project Sheets

Staff have developed a new capital project sheet template which has added more information for asset management data gathering/tracking purposes. In addition, the

public view of the project sheets has been refreshed by simplifying in an ongoing effort to produce more user friendly financial documents.

#### Cash Flow Budgeting

A greater focus will be given to the timing of funding allocations for capital projects. By more carefully aligning project management milestones where possible with cash flow, flexibility may result, allowing funds to be freed up and allocated to the phases of other priority projects.

#### Corporate Project Funding

Staff is developing a process to ensure a consistent approach for Enterprises to contribute their share of corporate projects that benefit all.

Important strides are being made to the capital budget process to continue to improve the quality of information, and to include mechanisms to support and connect to the City's Asset Management Plan.

### **Challenges/Opportunities**

The City has labour contracts with several different groups – Management, Staff Association, CUPE and Fire. The current agreement with the Staff Association and Management expires on February 29, 2020. CUPE Local 1542 expires on December 31, 2019. As these are ratified agreements, the financial impacts are known and will be included in the 2019 Budget. Council approved the funding for provincial Bill 148 and specifically the minimum wage increase of \$14 per hour in the 2018 budget. The previous Liberal government had indicated plans to increase minimum wage to \$15 per hour in 2019. This additional pressure is included in preliminary forecasts for the 2019 budget, however, staff will monitor developments to this potential expense in light of the change to the provincial government, and adjust accordingly.

The Waterloo Professional Firefighters contract expired on December 31, 2017 and the budget will reflect estimates or actuals should an agreement be reached or arbitrated before budget time.

Other financial challenges and opportunities on the horizon include:

- City of Waterloo energy savings (e.g. Energy management of City facilities, LED streetlighting)
- Unknown changes as a result of Ontario's new government (e.g. impacts on electricity & fuel, gas tax funding)

- Focus on asset renewal while simultaneously adding new/changing services and service levels
- Adequately funding preventative asset maintenance
- Addressing operating impacts of capital in a timely manner
- Continuing to minimize financial impacts by building in sustainable funding changes into the budget where possible
- Implementation of funding strategies for various significant capital projects including WMRC expansion and East Side Library branch
- ION and its impact on development
- Updated long term financial plan for 2020 budget decision making
- Neighbourhood strategy and resulting funding strategy
- Greenhouse gas reduction program
- Climate change & environmental impacts
- Legalization of recreational marijuana

#### Other Budget Work in Progress

Item	Other Budget Work in Progress Description
<b>Business Plans</b>	Commissioners, Directors & Managers are developing the divisional business plans. Business plans assist with budget planning, council orientation, and council decision making as it relates to budget
<b>Fees/Charges/Rates</b>	<p>Council will receive all the tax based user fees and parking, building standards, business licensing and cemetery rates for approval on June 18, 2018. These will then form the basis for incorporating corresponding revenue, where applicable, into the 2019 operating budget.</p> <p>Rental Housing &amp; Water Services will bring their rates for Council consideration in December 2018. Rental housing will be reviewing their model in more detail and therefore will be bringing those updates to Council later in the year. Water Services rates are presented towards the end of the year once the draft Regional wholesale water rates are known.</p>

Item	Other Budget Work in Progress Description
<b>Operating Budget</b>	<p>The budget committee established an expense reduction target and has worked with staff to identify opportunities to meet it. Historical results have also been analyzed to determine realistic budget true ups. More work continues to develop levers for Council decision making. Staff will be inputting information into the budget software as part of a larger reconciliation process and so that documentation can be assembled for Council review later this year.</p>
<b>Capital Budget</b>	<p>Council will receive the 2017 year end capital report on June 18, 2018 which will provide insight into the status of capital projects for information.</p> <p>The Reserve &amp; Reserve Fund report will be provided to Council in the fall and the new Council will also receive it as background information.</p> <p>Staff are developing detailed project sheets and working within funding boundaries to develop the draft capital program. The draft capital program will be reviewed by the staff budget committee and adjustments made as necessary to ultimately finalize a draft program for Council's consideration.</p>
<b>Public Engagement</b>	<p>Focus on simplifying budget documents for Council/Public</p> <p>Promote awareness of budget information and budget meetings</p> <p>Working with Laurier to develop a potential Participatory Budget Pilot program for Council's consideration</p> <p>Other engagement opportunities recent past and future will be highlighted through the divisional business plans</p>

CORP2018-050 APPENDIX A  
**CORPORATE POLICY**



Policy Title: **Multiple Year Budget Approval**  
Policy Category: **Financial Control**  
Policy No.: FC-011  
Department: Corporate Services  
Approval Date: December 17, 2007  
Revision Date: August 10, 2015  
Author: Cassandra Pacey  
Attachments:  
Related Documents/Legislation: Ontario Municipal Act Regulation 291.(1)

Key Word(s): Budget

**POLICY STATEMENT:**

The Council for the City of Waterloo is committed to demonstrating financial leadership and sustainability. This policy assists in formalizing a defined, transparent and flexible process for budgeting.

**PURPOSE:**

Changes made to the Ontario Municipal Act in 2006 provide Council with greater flexibility. The additional flexibility is created due to the ability to approve a one year budget for the first year of a Council term and the remaining three years in one, three year approval if Council wishes. The purpose of this policy is to define the procedures for multiple year budget approvals.

**DEFINITIONS:**

**Municipal Act**

The *Municipal Act* is the statute governing the powers, duties, internal organization, and structure of Ontario municipalities.

**CMT**

Corporate Management Team

**Net Zero**

Adjustments categorized as "housekeeping" items whereby budget funds can be reallocated within departments to realign the existing budget.

**Mandatory Policy, *Municipal Act*: No**

**Policy Administration Team, Review Date: July 10, 2015**

**Corporate Management Team, Review Date July 15, 2015**

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**SCOPE:**

This policy applies to all members of the City's organization including members of Council, full, part-time and contract staff.

**POLICY COMMUNICATION:**

Council will receive this policy for approval. If approved, the policy will be posted on the city's intranet. Staff will be advised of the policy via distribution to the Operational Leadership Team and Corporate Management Team.

**POLICY:****Budget and Business Plans**

1. Departments will prepare three year budgets & business plans that will establish three years of service levels and three years of revenue requirements.
2. Departments are expected to operate within their approved budget in each of the three years.
3. Annually, if a surplus exists, it will be allocated to reserve funds based on existing surplus allocation policies.

**User Fees**

1. City of Waterloo User Fees will be reviewed as part of the budget process. User Fees will be adjusted to reflect market influences and operation needs.
2. The Fee & Charges By-Law will be approved by Council as a single year in the first year of a Council Term.
3. Subsequent to the first year, a three year approval of the Fee & Charges By-Law will be sought.
4. That the powers of a Commissioner to increase, decrease or waive a fee outlined in section 3.1.8 in the Fees & Charges By-Law
5. Significant changes may be brought to CMT and subsequently to Council for review and approval.
6. User Fees that are legislated to be set for a specific date or time period will be adhered to and brought to Council for approval.

### Adjustment Process

1. The three year budget approval will allow for an annual adjustment process so that Council has some flexibility to adjust plans and budgets as economic and political circumstances change.

Adjustments may include, but are not limited to;

- a) Material changes to the projected Core Consumer Price Index (CPIX)
- b) Material changes to Labour Agreements
- c) Material changes to Economic assumptions
- d) Changes to Assessment Growth Projections\*

Material changes are defined as individual items that will have an impact of 1% property tax budget (or approximately \$600,000).

### \*Assessment Growth

Budget will be adjusted annually for changes to Assessment Growth Revenue within the three year budget cycle. The changes will be reflected in the annual budget confirmation that goes to Council for approval. This is to ensure the tax levy is adjusted appropriately.

Scenario	Recommended Action
Actual Assessment Growth is greater than budget up to a maximum of 1% property tax budget (or approximately \$600,000)	Allocate excess funds to Budget Contingency to minimize the impact of unforeseen expenses or shortfalls in assessment growth in future years.
Actual Assessment Growth is less than budget up to a maximum of 1% property tax budget (or approximately \$600,000)	Fund the shortfall through the Tax Rate Stabilization Reserve as a one-time infusion of funds. Sustainable funding to be referred to the following year's budget process.
Differential between Actual Assessment Growth and Budgeted Assessment Growth greater than 1% property tax (or approximately \$600,000)	Open the budget per materiality threshold.

**Operating Net Zero Procedure:**

1. There is an opportunity for Managers/Directors/CMT to make "Net Zero Adjustments" between budget cycles.
2. It is not an opportunity to create new programs or receive additional funding as by definition the changes must net to zero.
3. Any changes must be a reallocation of one expense to another expense, or from one revenue source to another revenue source, thereby having no overall financial impact but rather to more accurately align the budget.

For instance, if actual expenses for a certain budget line are historically below budget provision, funding may be reallocated to another desired expense account, as shown below:

	Amount	Account	Account Description	Org	Org Name	Program	Project
Increase Budget to: + sign in front	\$5,000	200511	Mtc Contracts	13511	Building Stds	00000	00000
Decrease Budget from: - sign in front	-\$5,000	200106	Legal Prosecution	13511	Building Stds	00000	00000
<b>Net Zero check</b>	0						

**Capital Net Zero Procedure:**

1. Projects of equal or lesser value may be traded off within the three year period adhering to the following thresholds;

Threshold <sup>^</sup>	Approval Level <sup>^</sup>
< \$10,000	Directors
> \$10,000 and < \$50,000	Commissioner
> \$50,000 and < \$200,000	CMT
≥ \$200,000	Council

Note:

<sup>^</sup>The projects have been approved during the capital budget process. The alignment of the projects may be adjusted based on the identified thresholds to be efficient and cost effective.

**COMPLIANCE:**

In cases of policy violation, the City may investigate and determine appropriate corrective action.