



STAFF REPORT
Financial Planning

Title: 2020-2022 Proposed Budget Summary – Moving Forward Together
Report Number: CORP2019-088
Author: Filipa Reynolds and Brad Witzel
Meeting Type: Finance and Strategic Planning Committee Meeting
Council/Committee Date: December 9, 2019
File: Appendix A – Inflationary Measures
Ward No.: City Wide

Recommendation:

1. That CORP2019-088 be received for information

A. Executive Summary

The objectives of this report are to:

- Provide council and the public with foundational information as background to the proposed three year budget (Section 1)
- Highlights/key messages of the proposed operating budget (Section 2) and the proposed capital budget and capital forecast (Section 3)

Approval of the 2020-2022 operating and capital budgets and the 2023-2029 capital forecast is scheduled to take place on February 10, 2020. All budget documents can be found at [Budget 2020-22](#)

B. Financial Implications

All of the financial implications associated with the proposed operating and capital budget are contained within the budget documents as released on December 9, 2019 and highlights are summarized within the body of this report (CORP2019-088).

C. Technology Implications

N/A

D. Link to Strategic Plan/Economic Vitality

se(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.

E. Previous Reports on this Topic

- CORP2019-061 2020-2022 Budget Strategy – September 16, 2019
- CAO2019-020 Office of the CAO (Economic Development and Legal Services) 2020-2022 Fees and Charges Updates – June 17, 2019
- CAO2019-022 2020 Parking Rates – June 17, 2019
- CORP2019-040 Corporate Services 2020-2022 Fees and Charges – June 17, 2019
- COM2019-020 Cemetery Services 2020 Fee Adjustments – June 17, 2019
- COM2019-024 Rental Housing and Business Licensing Fees and Charges Updates – June 17, 2019
- COM2019-023 Community Services Fees and Charges 2020-2022 – June 17, 2019
- IPPW2019-038 IPPW 2020-2022 Fees and Charges – June 17, 2019
- CORP2019-043 Bill 108 More Homes, More Choice Act, 2019 – Impact on Development Charges – May 27, 2019
- CORP2019-025 Capital Budget and Capital Overhead Policy Updates Approval – May 13, 2019
- CORP2019-018 2019 Budget Process Debrief – March 18, 2019

F. Approvals

Name	Signature	Date
Author: Filipa Reynolds		
Author: Brad Witzel		
Commissioner: Keshwer Patel		
Finance: Filipa Reynolds		

CAO



**2020-2022 Proposed Budget Summary – Moving Forward Together
CORP2018-083**

REPORT

The budget is the City of Waterloo’s annual financial plan, and is the primary basis for financial decision making. 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 that brings core city services and the Strategic Plan to life.

This report is structured as follows:

- Section 1: Foundational information as background to the 2020-2022 Budget
- Section 2: Highlights of the proposed three year operating budget
- Section 3: Highlights of the proposed three year capital budget and seven year capital forecast

Approval of the 2020-2022 operating budget and capital budget and capital forecast is scheduled to take place as part of final budget day, scheduled for February 10, 2020. Following is a summary of remaining key budget milestones (Table 1):

Date	
December 9, 2019	Operating and Capital Budget Release: Proposed budget documents (including city utility rates) are presented to council and available to the public Budget 2020-22
December 10, 2019 to January 11, 2020	Public engagement survey to collect feedback about the budget from citizens engageWaterloo
December 16, 2019	Development Charge By-Law approval by council
January 13, 2020	City utility rates approval by council
January 13, 2020	Department business plans presented to council (Integrated Planning and Public Works)
January 20, 2020	Department business plans presented to council (Office of the Chief Administrative Officer, Corporate Services, Waterloo Public Library)
January 27, 2020	Department business plans presented to council (Community Services)
February 3, 2020	Proposed capital budget is presented to council and routine/non-routine classification approval by council
February 10, 2020	2020-2022 Operating and Capital approval by council

SECTION 1: Foundational Background Information

1.1 General Information: Operating and Capital Budget

Through a balanced, carefully-planned city budget, Waterloo delivers valuable services and programs to residents. The operating budget covers the daily expenses (e.g. salaries, utilities, supplies) of delivering a myriad of services including:

- snow removal
- fire protection
- road and trail maintenance/repairs
- recreational programs
- cultural programs
- library services
- distribution of safe drinking water
- sewer maintenance
- by-law enforcement
- financial support for other local organizations resulting in additional cultural and economic activity in the city

In order to offer these services and many others that are not listed, council considers the priority of these services in relation to the Strategic Plan, the financial impact of delivering the programs and services and their affordability to tax and rate payers.

The city's capital budget and Forecast invests in infrastructure (assets) which provide a long term benefit to the community. The capital budget covers building and rehabilitating a variety of assets including:

- roads
- sewers
- parks
- city facilities
- vehicles
- mechanical equipment

The projects included in the capital budget and capital forecast can span a number of years, and often result in new assets being built, or renewal of existing assets. The term of the forecast is seven years, which helps establish capital priorities for both the near future and the longer term. As part of the budget process, council reviews, deliberates, and approves the capital budget and approves the capital forecast in principle. Any project in the forecast period (2023 and beyond) is only approved in principle this far in advance, meaning that it is a guide only and there is no representation made that these

projects will actually be funded as forecasted. During future budget cycles, and if the forecasted projects remain a priority, they would be re-introduced for approval.

In many cases, capital assets can result in additional operating costs. For example, if a new road is built, it incrementally adds to the existing road network resulting in more lane kilometres of road that require ongoing upkeep and services (Operating). These operating activities may include snow clearing of the road itself and adjoining city sidewalks, street sweeping, leaf collection, median horticultural maintenance, and grass cutting. It is important that council not only consider the one-time costs associated with building a new asset (capital), but also the ongoing operating costs of that asset and eventually the life-cycle replacement cost of that asset. Often times, the one-time up front capital cost of the project is the least expensive part – it's the ongoing operating maintenance and the future capital cost replacement that is often times the most critical aspect when determining the financial viability of a capital project. The operating impacts associated with 2020-2022 capital projects are identified in the budget documents.

Citizens may familiarize themselves with how a city budget works by watching a short video on the city's [Budget 2020-22](#). The budget webpage also describes the budget decision making process and contains all the budget documents.

1.2 Multi-year Budgeting

Operating and Capital

Since 2008, the City of Waterloo has elected to perform multi-year budgeting. It provides council, staff and citizens with stability and a longer term planning horizon. In addition, the budget process is a significant investment of time and effort by all participants of the process. It is estimated that the City of Waterloo saves over 10,000 hours during a four year council term from multi-year budgeting. This capacity has enabled financial planning resources to be redeployed to priority work including; the development of the Tangible Capital Assets process, city wide coordination of grants and development of the policy, development of various plans including the Long Term Financial Plan, various rate models, the capital year-end report, ongoing improvements to the budget process such as the development of the Budget in Brief, and changing budget related public engagement efforts without adding additional resources. For other areas of the organization, they can focus more time in years 3 and 4 (second and third year of the multi-year budget) on delivering services, building and maintaining assets, exploring new partnerships and opportunities and ultimately doing what they do best, to provide excellent services to the citizens of Waterloo.

There are presently two different budget cycles during the four-year term of city council. In year one of the term, a single year budget is passed by city council (recent example is the 2019 budget). This is followed by a three year budget covering the rest of the term. This time, council will be considering a three year budget for both operating and capital. In addition, staff always provides council with a longer term forecast for capital so that collectively council sees a 10 year window from an asset perspective. As capital projects can often span multiple years in terms of planning, design, construction, a 10 year plan provides a more comprehensive view of capital decisions. These forecasted projects and respective funds are not approved to move forward as part of the budget approval. Rather, it is an opportunity to provide council insight into the longer term plan and to allow for discussion leading into subsequent future budget processes.

The multi-year budget process is intended to align with the timing of council's Strategic Plan. With the Strategic Plan now in place, the next step is for council to make budget decisions to continue to provide the core programs and services that citizens value, while laying the foundation to bring new priorities, as identified in the Strategic Plan, to life.

1.3 Council's 2019-2022 Strategic Plan

It is challenging to strike the right balance between delivering the services residents expect and finding service level efficiencies, investing in community initiatives to support neighbourhoods and growth in communities, addressing challenges of equity, inclusion, affordability, and investing in creating a vibrant city while effectively managing tax rate increases. A number of policies and plans (and the public engagement associated with these initiatives) contributed to the city's proposed budget. Another critical input to the 2020-2022 budget process was the 2019-2022 Strategic Plan which saw nearly 11,000 members of the community including residents, business and education leaders, city council, post-secondary students and city staff provide feedback into the Strategic Plan. Where the Strategic Plan leaves off, is where business planning begins at the department level. This, in turn, drives the budget process.

The Strategic Plan contains seven Guiding Principles, six Strategic Pillars, and 19 Objectives. The Strategic Plan was used to guide the direction of the 2020-2022 proposed budget and Business Plans. The extent to which the strategy can be implemented will depend on the choices made during the budget deliberation process.

1.4 Budget Process

A city-wide, multi-year budget is complex and involves staff in many different levels and from all areas of the organization. Staff typically begin working on the budget process 16 months before the scheduled approval with initial groundwork at the start,

adjustments for changing priorities and more intense deliberations leading up closer to the December release. Work over the 16 months includes:

1. Review financial policies to address emerging issues and new ways of thinking
2. Set initial budget strategy to guide staff throughout the organization
3. Identify initial needs for both capital and operating via business plans and budget requests
4. Explore opportunities to reduce financial impacts through the review of actuals, surplus/deficit, and efficiencies.
5. Develop public engagement tools
6. Implement improvements to the budget process and documents as identified by staff and through council's budget debrief
7. Undertake other parallel input reviews such as: development charge background study, fees/charges/rate reviews
8. Identify asset rehabilitation needs by asset category
9. Adjust budget strategy as needed to align with the approved Strategic Plan
10. Adjusting initial needs/opportunities and business plans resulting from the approved Strategic Plan
11. Staff across the organization develop proposed operating budget requests, and capital project sheets based on the information and especially the studies noted above (eg. various Master Plans and Development Charge Background Study)
12. All of the data is consolidated by Financial Planning and reviewed by the Budget Committee which has representation from each of the city's four departments (CAO, three commissioners, seven directors)
13. The Budget Committee deliberates and prioritizes operating and capital through the lens of the Strategic Plan and working within the parameters of Policy FC-019 CPIX which provides guidance related to tax increases
14. The Budget Committee also directs staff to develop operating issue papers for more complex subjects and operating discussion papers for emerging/future issues and develops a prioritized menu listing for council, should council wish to add/reduce the proposed budget
15. Once the Budget Committee is satisfied that the proposed budgets will achieve council's goals, Financial Planning and staff from across the organization, finalize all of the documents for release and review by council and the public

16. Council and the public have two months to review the proposed budget documents (release on Dec. 9, approval on Feb. 10). During this time, there is a survey that will be live for one month, as well as seven council meetings between Dec. 2019 and Feb. 2020 focused on budget related discussions. The public is welcome to attend the meetings in person, register as a delegation to speak, or watch/listen to the live-stream of the meeting or at a later date by accessing the city's YouTube page.
17. In December the Development Charges (DC) By-law approval is set to take place. This will be the third public meeting on DCs with the first one held in October, and the second in November.
18. On Dec. 9th, council and the public will hear a presentation on proposed city utilities rates. Council will have 5 weeks to review this report and consider the recommendations (approval set for Jan. 13).
19. During the January Business Plan meetings, Commissioners and Directors present their business plans. Council may wish to ask more information about specific proposed operating budget initiatives or about specific planned capital projects during these meetings.
20. On Feb. 3rd, council will review capital project routine/non-routine criteria and approve the respective criteria. This will influence which projects can have funding automatically released after the February 10th budget approval, and which projects will need to return to council for further review.
21. On Feb. 10th, council will deliberate the proposed three year operating budget and the three year capital budget, make amendments as needed and approve. The seven year capital forecast will be approved in principle only.

1.5 Budget Public Engagement and Communications

The City of Waterloo has a long standing practice and commitment to meaningful engagement with the community on its operating and capital budgets. The city also undertakes ongoing community engagement in support of its Asset Management Plan (AMP) and Long Term Financial Plan (LTFP). There is an obvious connection between the city's budget, AMP and LTFP and the findings from the AMP and LTFP consultation are being used to determine the priorities of the city's proposed budget, particularly the capital budget. In addition, as part of the development of its 2019-2022 Strategic Plan, the city conducted a statistically valid Community Satisfaction survey, which also provides important input into the 2020-2022 capital and operating budgets.

Using the findings from the public on the AMP/LTFP, Citizen Satisfaction Survey, and Strategic Plan, the city will utilize its online [engageWaterloo](#) platform to further consult and gain insight on the proposed three-year budget, once it is submitted to council on December 9th, 2019. This engagement will provide the community with an opportunity

to comment on whether the priorities identified through the proposed budget are in alignment with the feedback received in the previous engagements. As such, the survey will be launched on December 10th through to January 11, 2020. Staff will provide council with results leading into budget approval day to assist with decision-making.

Promotion of the online engagement as well as promotion of the budget process in general and respective council meetings will include the use of the City's website, editions of the city's newsletters: City News and Waterloo Stories, social media channels, and several traditional advertisements in the Waterloo Chronicle. Staff will identify and use topics of interest as gateways to promote the budget engagement in December and January, as suggested by council during the budget debrief session held earlier this year.

1.6 Visual Road Map – Where do I start?

An entire city-wide budget is complex and the volume of information can be intimidating. In order to have the most effective and informative experience, understanding what sequence to read the materials is important. Depending on the user, they may wish to have a high-level quick budget view, while another user may wish to know details about a specific operating change or a specific capital project. Another user would like something more detailed than the highest level but less detailed than the lowest level. Staff endeavours to provide a variety of documents to satisfy the needs of different users.

A visual roadmap has been developed to help users navigate the budget documents depending on the user's need. Before diving into the documents, it may be helpful to quickly review the [roadmap](#) first to determine the best course of action.

Materials in order of most high-level information to most detailed:

1. Budget in Brief
2. Business Plans
3. Operating Budget Book and Capital Budget Book
4. Operating Budget Requests and Capital Budget Project Sheets
5. Operating Budget Issue Papers
6. Operating Budget Menu Papers
7. Operating Budget Discussion Papers
8. Other reference reports and materials:

Reports released December 9, 2019:

- CORP2019-060 Reserves and Reserve Funds Annual Update
- CORP2019-075 Long Term Financial Plan – Update
- CORP2019-085 2020 Annual Debt and Financial Obligation Limit Calculation

- CORP2019-088 2020-2022 Proposed Budget Summary – Moving Forward Together
- IPPW2019-037 Building Standards Fees and Charges 2020
- IPPW2019-069 - City Utilities 2020 Rates Release
- IPPW2020-001 - City Utilities 2020 Rates Approval

Reports released earlier in 2019 as reference:

- CAO2019-020 Office of CAO - Ec Dev and Legal Fees and Charges 2020-2022
- CAO2019-022 Parking Rates 2020
- CAO2019-040 Strategic Plan Implementation Update
- COM2019-020 Cemetery Services 2020 Fee Adjustments
- COM2019-023-Community Services Fees and Charges 2020-2022
- COM2019-024 Rental Housing and Business Licensing Fee and Charges Report
- CORP2019-025 Capital Budget and Capital Overhead Policy Updates
- CORP2019-040 Corporate Services 2020-2022 Fees and Charges
- CORP2019-061 - 2020-2022 Budget Strategy Update
- CORP2019-070 - Development Charge Background Study and Update
- CORP2019-080 Early Approval of Capital Projects
- CORP2019-081 - Development Charge Update - Formal Public Meeting
- IPPW2019-038 - IPPW 2020-2022 Fees and Charges

Budget in Brief

New for the 2019 budget, was the Budget in Brief. The Brief was met with some mixed reaction by council, although in general, it was received positively. Staff have taken the feedback from council and re-vamped the Brief for the 2020-2022 budget by shortening it by 50% so that it is more focused. The goal of the Brief is to provide a quick summary for citizens who do not have time to review the more detailed documents, but who want to have a sense of what the proposed changes in the 2020-2022 budget mean. The Brief can also be the starting point for those who wish to invest more time in exploring certain areas of the budget by laying the foundation with general information first.

Business Plans

Staff has revised the business plan template to provide greater linkage to the Strategic Plan and the budget. The plans will enable a general audience to relate to each division (who are we), the services we deliver (what do we do), the factors (often legislation) that guide our service delivery, emerging trends in our sector and respective divisions (what impacts us), and how we measure success. Key initiatives are identified in more detail and how they link to the Strategic Plan. Each division's business plan also contains a summary of the proposed three year operating and capital budgets. Another

improvement made to the business plan template this year is the addition of all of the operating budget request reference numbers and capital project sheet reference numbers. These reference numbers will help members of council and citizens to learn more about certain divisions or certain proposed changes within a division by then reviewing those specific budget requests or capital project sheets. Output measures that speak to our core business have also been included in the Business Plans. On a related note, the city has adopted ISO 37120:2018 and the United Nations Sustainable Development Goals (SDGs) as two frameworks to measure the city's progress against the 2019-2022 Strategic Plan. A more holistic corporate reporting framework, will be introduced in late 2020 via the CAO's office.

The [Business Plans](#) are available on December 9, 2019 on our website. Presentations by Commissioners and Directors will be conducted over the course of three council meetings in January 2020 as described in the schedule (Table 1) on page 3.

Long Term Financial Plan

Another tool to assist council with decision-making, is the Long Term Financial Plan (LTFP). The LTFP projects revenues and expenditures over a 25 year period and integrates both operating and capital. The purpose of the 25 year period is to provide council with a longer term view of the impact of decisions – many of which have multi-year implications. It also provides a forum for ideas and discussion regarding future plans. These plans may very well change with each update, however, it provides a blueprint for discussion. The purpose of combining both capital and operating is to understand the total financial impacts of both inputs, instead of viewing them as mutually exclusive.

The city's first LTFP was approved on April 16, 2018. Staff have updated the plan for items proposed as part of the 2020-2022 budget and changes in assumptions since 2018. This update is provided to council as part of the December 9, 2019 budget release (CORP2019-075). Going forward, the LTFP will be updated and provided to council as part of every three year budget.

Development Charges

On November 18, 2019, council approved the Development Charge (DC) Background Study and directed staff to incorporate a 2-rate apartment structure for the finalized by-law to be brought forward for approval on December 16, 2019. This year, staff undertook a DC Background study, in order to better align the budget process with the DC process. In the past, DC by-laws were being passed in non-budget years, which resulted in a more fragmented view of the budget for council. By aligning the DC study with the 3 year budget process, council is in a better position to consider all parts of the

budget (whether growth, rehabilitation, other strategic projects) and the corresponding operating impacts of those capital project decisions at once. All related DC documents can be found on the city's website at this link: www.waterloo.ca/developmentcharges

Rates or Fees and Charges

Part of the budgeting process is to review and update divisional rates or fees and charges. Divisions have been tasked with the responsibility to review their revenues to determine market responsiveness, customer affordability and cost recovery for all fees. Council's approval of fees and charges was split into a few dates to facilitate work on the operating budget, enable fee updates occurring before budget approval and allow for enterprises to incorporate factors outside of the city's control (e.g. Regional wholesale water rate increase which becomes known later in the year).

Updates to the division and department Tax Base Fees were tabled before council on June 17, 2019. In those reports, staff identified whether revenues are increasing in line with inflation on average and the estimated financial impact. This analysis is presented to facilitate council decision making on user fees, taking into account the impact on the upcoming budget balancing exercise. Tax base fees are a three year approval, and the impact of the revenues and related expenses are incorporated into the proposed tax base three year operating budget.

Enterprises seek a one year rate approval (2020) with future years provided as forecast. Annually, enterprises return to council to confirm or update forecasted rate changes.

The following table summarizes the approval status of the proposed enterprise Rates:

Table 2 – Summary of Key Dates for Enterprises

Enterprise	Council Meeting – Discussion	Council Approval Date	Rate Change
City Utilities Services	Dec. 9, 2019	Jan. 13, 2020	See proposed changes per IPPW2019-069 and IPPW2020-001
Building Standards	Dec. 9, 2019	Dec. 9, 2019	Rates frozen per IPPW2019-037
Business Licensing	Jun. 17, 2019	Jun. 17, 2019	Rates frozen per COMM2019-024

Enterprise	Council Meeting – Discussion	Council Approval Date	Rate Change
Cemetery Services	Jun. 17, 2019	Jun. 17, 2019	See changes per COM2019-020
Parking	Jun. 17, 2019	Jun. 17, 2019	See changes per CAO2019-022
Rental Housing	Jun. 17, 2019	Jun. 17, 2019	2020 rate approval only. See proposed changes per COMM2019-024

Budget Policies

The City of Waterloo is committed to demonstrating financial leadership and sustainability. The 2020-2022 budget has been guided by various Financial Control and Budget related [policies](#). During each budget cycle, staff review the budget related financial control policies and recommended revisions where appropriate. For the three year budget, FC-012 Capital Budget Policy and FC-018 Capital Overhead Policy were modified and approved by council on May 13, 2019. The essence of the amendments were: 1) update the capital budget inflationary index for capital expenditures from the most current third quarter Toronto construction price index to a five year rolling average of the third quarter, Toronto construction price index. This was done to smooth out material changes in the index year over year; and, 2) adopt a flat 4% capital overhead rate as opposed to the previous method of 6% for small projects (< \$1,500,000) and 3% for large projects (> \$1,500,000). This flat rate approach is not only easier to administer and more consistent, but more importantly, it was found to be a more accurate representation of staff time to manage capital projects.

1.7 Inflationary Measures

There are various published inflationary measures that may be considered by council as part of budget decision making. While these indicators are results that have occurred in the past, they may provide context to assist council in making decisions that will impact the future. Future inflation may in actual fact be higher or lower than the previous year and therefore the indicators are used as a guideline. Current inflation statistics are as follows:

Table 3

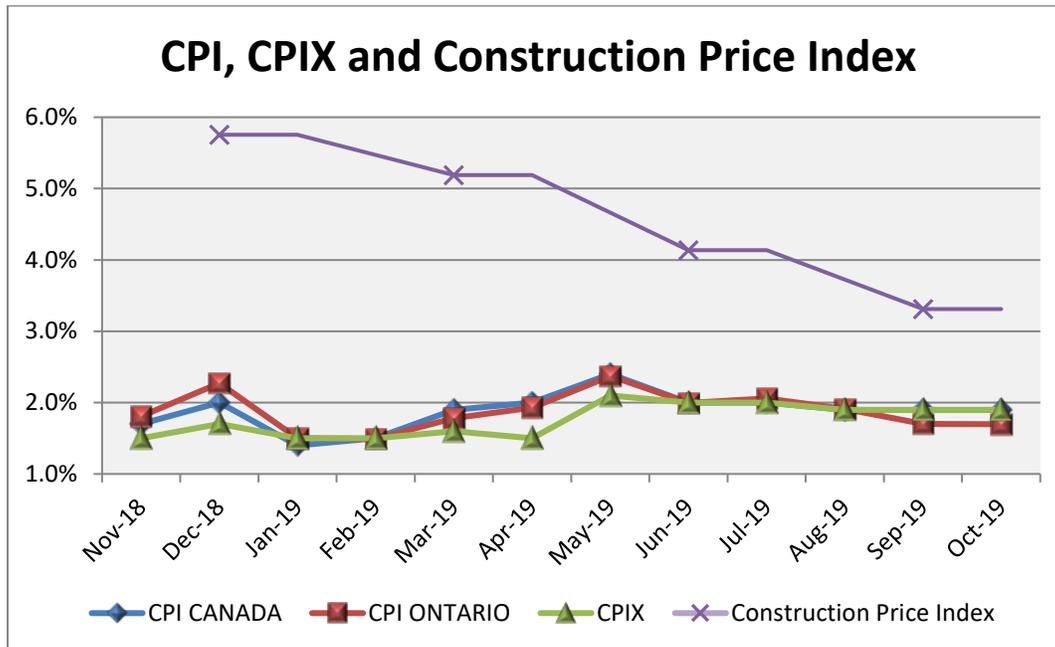
	12 mth average ¹			
Year	CPI Canada	CPI Ontario	CPIX	Construction Price Index (3rd Qrt.) ²
2019	1.88%	1.88%	1.76%	3.31%

¹ Based on a rolling 12 mth average, Nov. 2018 to Oct. 2019

² Construction price index based on 3rd quarter data, Q3 2018 to Q3 2019

Figure 1 combines all the economic indicators in graphic form and illustrates that the CPI based inflation measures were in an upward trend until May. Both CPI and CPIX have dropped since then and have either plateaued or dropped. CPIX remains slightly lower than CPI over the prior 12 months. The Construction Price Index has dropped considerably since Dec 2018 but remains a fair bit higher than CPI/CPIX.

Figure 1 – CPI Canada, CPI Ontario, CPIX and Construction Price Index Combined



For more details on each of the four indices, see Appendix A.

Future forecasts

It is widely known that forecasting future inflation is complex and uncertain. [CIBC Capital Markets, Economic Insights, October 2019](#) suggests that inflation in Ontario in the range of 1.8% - 2.1% is expected for 2020-2021.

The Budget Committee has taken the various inflation indices noted above into account while developing the proposed budget for council's consideration. The goal is to keep base services and operating impacts of capital at/in and around inflation and by also allocating assessment growth and including efficiencies/savings/other revenue opportunities, and budget true ups. Increased investment in infrastructure renewal and service level changes will be incremental decisions for council to consider. This approach aligns with making progress to implement council's new Strategic Plan.

1.8 Efficiencies and Improvements

Historically, in order to keep taxes at the rate of inflation or lower, and yet provide new/enhanced services and keep up with growth, many operating budget lines were simply not receiving the increase they should have been receiving and as a result, and over time, operational decisions were deferred to remain within the funding cap. For example: for front line services, decisions such as leaving a greater portion of a park's turf to naturalize instead of cutting it are incremental reductions to minimize impacts to citizens but to remain within the funding cap. Corporate services, internal service providers, take longer to complete a project or initiative, or take on more risk by not being as detailed with review of reports/business processes/reconciliations.

The average tax increase over the past ten years is 1.9%, with a low of 1.2% and a high of 2.3%. It should be noted that the tax increase includes the impact / funding of service level changes:

Table 4

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average 2010-2018
CPIX	1.7%	1.7%	1.7%	1.2%	1.8%	2.2%	1.9%	1.1%	1.5%	1.8%	1.7%
Tax Increase	1.6%	1.9%	2.2%	1.6%	1.2%	1.5%	2.2%	2.3%	2.1%	2.2%	1.9%

Efficiencies, cost savings, other revenue solutions and more accurate budgeting have been critical in order to continue to deliver services effectively while maintaining lower tax increases. Approximately \$6.95M of such actions has been implemented over the past 8 years (2012-2019) and noted in the budget summary report for the 2019 Budget process. The 2020-2022 proposed budget contains an additional \$2.4M of these such improvements which when coupled with assessment growth, allow for a modest tax increase in line with inflation for base services and operating impacts of capital.

In addition to savings that can be quantified and that reduces current budgeted expenses or partially offset budgeted expenses, the city has also recalibrated its labour force several times over the last few years. This has allowed the city to adapt to an ever changing environment by reducing labour in certain areas in order to increase it in others without an additional financial pressure as well as adjusting service levels and developing joint services initiatives with area municipalities to generate economies of scale and service continuity.

As planned, in 2019 staff have initiated a Lean Six Sigma program pilot for two projects; streamline the fleet acquisition and disposal process, and improve data based decision making through the review of existing processes for vehicle maintenance recording and the repair work orders. The city has also completed a Winter Modernization review process through a consultant and using the Lean Six Sigma methodology. This was presented to council at the FSP meeting on November 18, 2019. Also, ongoing is a region wide Lean Six Sigma project being led by the Region to review the Official Plan and zoning amendment process.

In addition the Extended Corporate Management Team members have all recently been trained and received Lean Six Sigma yellow belt certification. Subject to resourcing through the three year budget, staff proposes to conduct a more robust Lean Six Sigma rollout in 2020 which would involve staff training on the methodology, and selection of existing processes and workflows that could be targeted for improvements. For more details on the city's efficiencies and continuous improvement efforts, refer to staff report CAO2019-031: [Sept 16, 2016 Finance and Strategic Planning Committee Meeting](#)

SECTION 2: Key Highlights of the 2020-2022 Operating Budget

Council is receiving an operating budget package which presents a proposed budget and includes a menu listing of items to provide flexibility for council's decision making.

As with all other cities, Waterloo is faced with competing pressures to address infrastructure needs and growth related needs, investing in services that enhance our community, while keeping affordability in mind when setting budgets. The city is also faced with urban issues of affordable housing, enabling a modal shift to increased use of active transportation, and investing in neighbourhoods and communities. These challenges and the aspiration to address them are incorporated in council's 2019-2022 Strategic Plan.

Based on these factors, the **proposed 2020-2022 budget – Moving Forward Together** aims to work on these strategic priorities while delivering on our core services, through **four main goals**:

1. Support for existing programs and services
2. Operating funding to support new capital assets
3. Service delivery enhancements and additions as supported by the new Strategic Plan
4. Increased investment in infrastructure renewal

All of the proposed 2020-2022 budget items can be viewed in more detail and are available on the city's website at [Budget 2020-22](#).

2.1 Key investments in the Strategic Plan

The proposed 2020-2022 operating budget includes an investment of \$15.8 million towards the strategic priority areas. These commitments are funded by a combination of tax base and enterprise funding. Investments include:

- Truth and Reconciliation Action Plan Implementation (S7) - Equity, inclusion and a sense of belonging
- SWR evolGREEN Funding Support (B22) - Sustainability and the environment
- Traffic Technician (B46) - Safe, sustainable transportation
- Neighbourhood Strategy Implementation (S5) - Healthy community and resilient neighbourhoods
- Increased Infrastructure Funding as per LTFP (CIRRF) (I6) - Infrastructure renewal
- Municipal Accommodation Tax (Hotel Tax) Spending Plan (B27) - Economic growth and development

- Election Reserve Transfer Increase (B41) - Supporting the Strategic Plan Guiding Principles

On November 18, 2019 the City of Waterloo declared a climate emergency and formally adopted a Corporate emissions target of a minimum 80% reduction in GHG emissions below 2011 levels by 2050. Council directed staff to report back in 2020 with terms of reference for this plan and a proposed timeline for prompt implementation. Investments included in this proposed 2020-2022 budget and future budget will be required to achieve this goal.

The proposed operating budget allocates \$15.8 million annually by 2022 to strategic priorities while the proposed capital budget invests \$294 million in the first three years in support of the Strategic Plan (Table 5):

Table 5

Strategic Priorities	Proposed Annual Operating Investment by 2022 (\$ 000's)	Proposed One Time Capital Investment in 2020-2022 (\$ 000's)
Equity, inclusion and a sense of belonging	\$ 230	\$ 1,478
Sustainability and the environment	\$ 3,708	\$ 21,553
Safe, sustainable transportation	\$ 161	\$ 9,693
Healthy community and resilient neighbourhoods	\$ 2,761	\$ 38,341
Infrastructure renewal	\$ 7,789	\$ 151,286
Economic growth and development	\$ 359	\$ 42,566
Supporting the Strategic Plan Guiding Principles	\$ 830	\$ 29,101
Total	\$ 15,838	\$ 294,017

**figures subject to rounding*

For more details on how the proposed budgets bring the Strategic Plan to life, review the operating and capital books, the operating budget requests, issue papers, and the capital project sheets found at [Budget 2020-22](#).

2.2 Efficiencies and Improvements

As part of each budget cycle, staff includes sustainable efficiencies and revenue opportunities to help deliver the important day-to-day services our residents have come to expect, while maintaining a moderate tax rate increase. For 2020-2022, \$2.4 million in budget efficiencies, and revenue opportunities (including budget true-ups) have been identified and included in the proposed budget submission before council. Highlights include:

- ✓ B2 Municipal Accommodation Tax (Hotel Tax) Revenue \$(250,000)
- ✓ B6 Administrative Monetary Penalties Program \$(126,800)
- ✓ B11 Increased Investment Income Revenue \$(300,000)
- ✓ B17 Facilities Utilities/Energy Savings \$(300,000)
- ✓ B18 Streetlight Electricity Savings from LED Implementation \$(83,000)
- ✓ B19 Telephone Contract Savings \$(48,000)
- ✓ B20 Vacancy Rebate Program \$(160,000)

2.3 Infrastructure Investment

As identified above, one of the four areas of focus for the proposed operating budget is increased infrastructure investment. This investment builds on the actions of prior councils whereby the Capital Infrastructure Reinvestment Reserve Fund was first established in 2008 and subsequent decisions were made to commit ongoing funding to the reserve fund. Proposed and measured increased infrastructure investment is supported through data from the city's comprehensive Asset Management Plan and Long Term Financial Plan. While the impacts of the changes are not immediate, it is a responsible action to take necessary steps now to ensure future generations are not left with significant accumulation of infrastructure in very poor condition. As such, proposed and measured infrastructure investments are reflected in the 2020-2022 budget documents.

2.4 Key facts and figures

Proposed budget:

- 2020-2022 Proposed tax increases at or below inflation for base budget and operating impact of capital and growth
- 2020-2022 Proposed tax increases above inflation for service level changes and infrastructure investments (Table 6)

Table 6

Budget Category	2020 Proposed Budget (%)	2021 Proposed Budget (%)	2022 Proposed Budget (%)
Base Budget ¹	1.0%	1.1%	1.2%
Operating Impact of Capital & Growth	0.7%	0.8%	0.5%
Sub-Total	1.7%	1.9%	1.7%
Service Level Changes	1.1%	0.3%	0.1%
Infrastructure Investment	0.7%	1.2%	1.6%
TOTAL	3.4%	3.3%	3.4%

¹ Includes Assessment Growth

- Average annual property tax household increase over 2020-2022 of \$45 (rounded)

Proposed Rates:

Annual impact to the average household (based on average household consumption) for combined water, sanitary sewer and stormwater proposed rate increase

Table 7

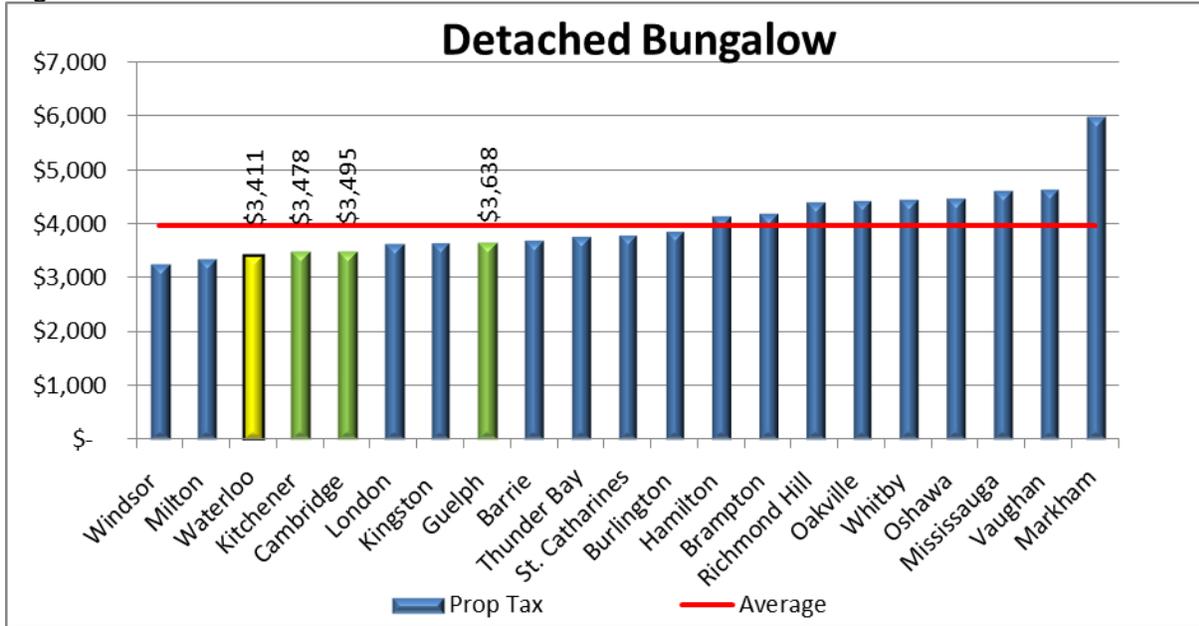
Increase from	2020 (\$)	2020 (%)	2021 (\$)	2021 (%)	2022 (\$)	2022 (%)
City of Waterloo	\$27.00	2.5%	\$27.09	2.4%	\$23.39	2.0%
Region of Waterloo	\$14.87	1.4%	\$18.47	1.7%	\$20.29	1.8%
Total	\$41.87	3.9%	\$45.56	4.1%	\$43.68	3.8%

Includes monthly service charge

2.5 Local Comparators

For context, as published by the BMA Management Consulting Inc. (2018 Municipal Study published in 2019), annual total property taxes paid (city, region and school board combined) in the City of Waterloo are relatively low for a detached bungalow as compared to various other cities in Ontario (Figure 2):

Figure 2



Waterloo council has enabled many past decisions that have positively influenced the Waterloo economy and community. These actions have supported a changing community which has thrived and adapted despite challenging global economic times. As a result, various market and economic forces make the City of Waterloo a desirable place to live, and market values reflect this and are therefore higher in Waterloo than in Kitchener or Cambridge.

In 2019, the average assessed value (by MPAC) of a residential property in the City of Waterloo was \$394,400. Comparatively, and despite being more populated cities, the average assessed value of a residential property was \$317,600 in Kitchener and \$321,700 in Cambridge.

BMA Management Consulting Inc. also publishes property taxes as a percentage of household income to provide some insight into the affordability of property taxes relative to the average household income in cities (See Table 8).

Table 8

Municipality	2018 Property Taxes as a % of Household Income
Kitchener	3.9%
Cambridge	3.8%
Waterloo	3.6%
Provincial Study Average	3.8%

Comparator City Budgets

At the time of writing this report, the Cities of Cambridge, Kitchener, and the Region of Waterloo, have not yet approved their 2020 budgets. However, proposed tax increases have been made public along with scheduled review dates as identified in Table 9.

These proposed rates will be subject to their respective council deliberations. Staff will provide an update to council for budget day on February 10, 2020.

Table 9

	Waterloo	Kitchener	Cambridge	Region of Waterloo	Guelph
	<i>Lower Tier</i>	<i>Lower Tier</i>	<i>Lower Tier</i>	<i>Upper Tier</i>	<i>Single Tier</i>
Property Taxes:					
Proposed Tax Levy Increase	3.4%	2.2%	4.0%	4.3% ³	-
Approved Tax Levy Increase	-	-	-	-	3.9%
Preliminary Budget Released	9-Dec-19	15-Nov-19	19-Nov-19	13-Nov-19	7-Nov-19
Budget Approval Date	10-Feb-20	20-Jan-20	12-Dec-19	22-Jan-20	3-Dec-19

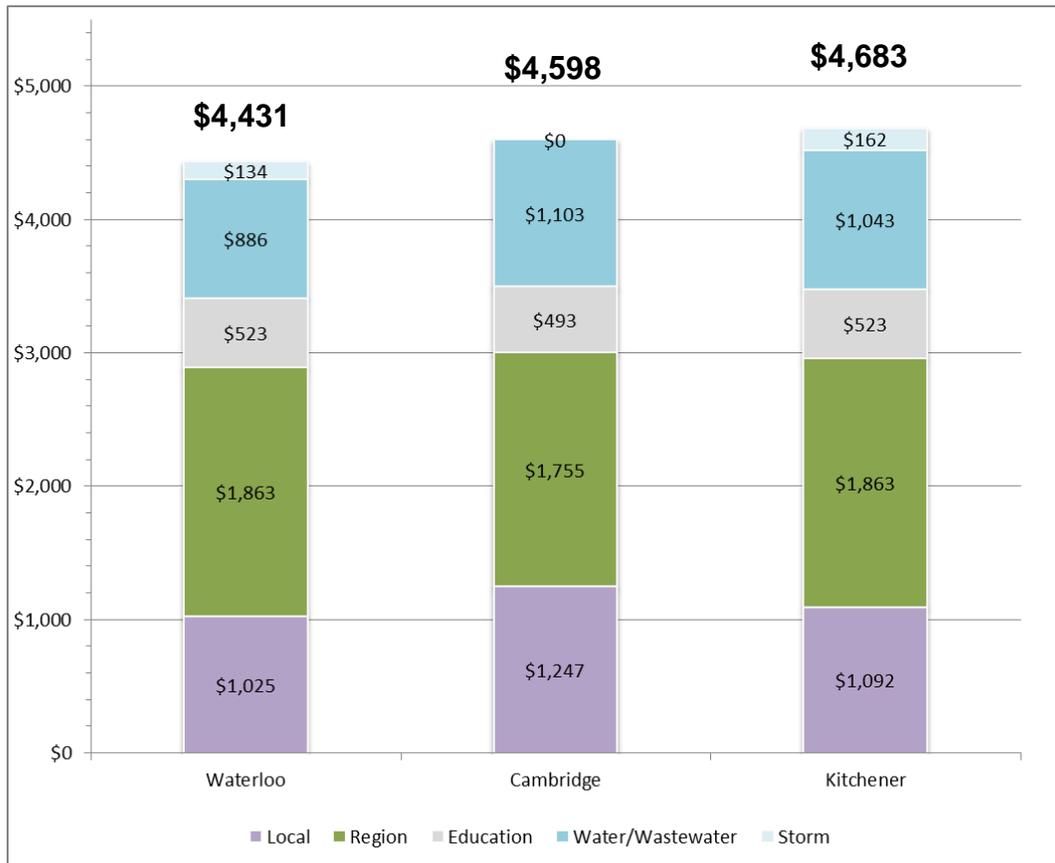
In addition, other cities that are often used as comparators to cities within our Region are included for information in Table 10:

Table 10

	London	Milton	Oakville	Burlington	Markham	Vaughan
	Single Tier	Lower Tier				
Property Taxes:						
Proposed Tax Levy Increase	TBD	9.2%	3.1%	4.0%	2.2%	2.9%
Preliminary Budget Posted	17-Dec-19	16-Sep-19	19-Nov-19	8-Jul-19	19-Nov-19	2-Dec-19
Budget Approval Date	3-Mar-20	9-Dec-19	16-Dec-19	16-Dec-19	10-Dec-19	17-Dec-19

For context, looking at total municipal taxes and water rates for an average detached bungalow, and using the last data available from BMA, the 2018 taxes and water rates that a similar household will pay in the City of Waterloo is lower than Cambridge and Kitchener.

Figure 3



Source Information:

- Storm and Water/Wastewater 2018 approved rates were taken from municipal websites
- Local, regional and education values from 2018 BMA Management Consulting Inc., municipal study

When making comparisons of tax levels from city to city, it's important to acknowledge that there are various choices made to keep taxes low and various impacts as a result of those choices. These choices include:

- deferring tax increases to a future council term
- running deficits
- low reserve levels
- service level decreases or lower service levels than other municipalities
- efficiencies/innovation
- increase other non-tax sources of revenue

Council has always been very deliberative and thoughtful in making these decisions, which reflects favourably amongst the comparators. This year will be no different with council needing to make the difficult decision to invest in infrastructure and service level changes while maintaining funding to keep core operations sustainable.

Total operating budget

For 2020-2022, the proposed gross operating expenditures with gross revenues that result in a net operating budget are shown in Table 11:

Table 11

Description	2020 (millions)	2021 (millions)	2022 (millions)
Gross operating expenditures	\$190.4	\$197.4	\$204.6
Enterprise revenues (including transfer from Reserves)	(\$67.0)	(\$69.5)	(\$71.9)
Tax based User fees and other revenue	(\$44.1)	(\$44.8)	(\$45.7)
Net operating budget/levy	\$79.3	\$83.1	\$87.0

**figures subject to rounding*

2.6 Menu List

Policy FC-019 CPIX directs staff in the following way:

- That CPIX be used as a guideline for property tax increases
- Staff are to strive to keep increases as close to inflation as possible for the base budget, including efficiencies, and operating impacts of capital and growth, net of assessment growth
- That staff include known pressures outside of the recommended budget and further reductions opportunities for council's decision making (Menu List)

The [2020-2022 Menu List](#) identifies potential additions and reductions to the proposed budget. There are 9 potential additions which total \$1,645,680 and 4 potential reductions which total \$(1,927,248).

The menu list is intended to provide council with alternatives for council's consideration, if council wishes to modify the proposed budget. Staff has prioritized the additions and reductions with M1 being the highest priority to be activated and M10 being the first reduction to be activated if council so chooses.

SECTION 3: Key Highlights of the 2020-2022 Capital Budget and 2023-2029 Capital Forecast

The proposed [Capital Budget and Forecast](#) balances growth and reinvestment in existing infrastructure with an increased focus on rehabilitation. It keeps debt at reasonable levels and reserves stable.

3.1 Impact of the proposed Capital Budget to the Community

- 2020-2022: 259 projects are proposed with a total value of \$294 million
- 2023-2029: 230 projects are proposed with a value of \$364.8 million
- 10 years made up of 334 projects with a total value of \$658.8 million

The projects within the proposed capital budget and capital forecast support council's Strategic Plan with planned investments in each of the 6 Strategic Priority Areas or supporting the guiding principles as follows (Table 12):

Table 12

2020-2029 Projected Capital Expenditures by Strategic Priority Area

Criteria	2020-2022			2023-2029			Total		
	# of Projects	Total \$ ('000's)	% of 2020-2022 Budget Dollars	# of Projects	Total \$ ('000's)	% of 2023-2029 Budget Dollars	# of Projects	Total \$ ('000's)	% of Total Budget Dollars
ECONOMIC GROWTH & DEVELOPMENT	11	\$42,566	14%	11	\$9,565	3%	15	\$52,131	8%
EQUITY, INCLUSION and a SENSE of BELONGING	6	\$1,478	1%	3	\$1,178	0%	6	\$2,656	0%
HEALTHY COMMUNITY and RESILIENT NEIGHBOURHOODS	48	\$38,341	13%	50	\$79,733	22%	70	\$118,074	18%
INFRASTRUCTURE RENEWAL	115	\$151,286	51%	105	\$216,182	59%	149	\$367,467	56%
SAFE, SUSTAINABLE TRANSPORTATION	21	\$9,693	3%	21	\$18,821	5%	25	\$28,514	4%
SUSTAINABILITY and the ENVIRONMENT	19	\$21,553	7%	14	\$22,567	6%	24	\$44,120	7%
SUPPORTING the STRATEGIC PLAN GUIDING PRINCIPLES	39	\$29,101	10%	26	\$16,702	5%	45	\$45,803	7%
Total Capital Budget	259	\$294,017	100%	230	\$364,748	100%	334	\$658,765	100%

Looking at the capital investment from a different angle, Figure 4 illustrates the 2020-2022 capital investment by department and Figure 5 illustrates how the projects are funded:

Figure 4

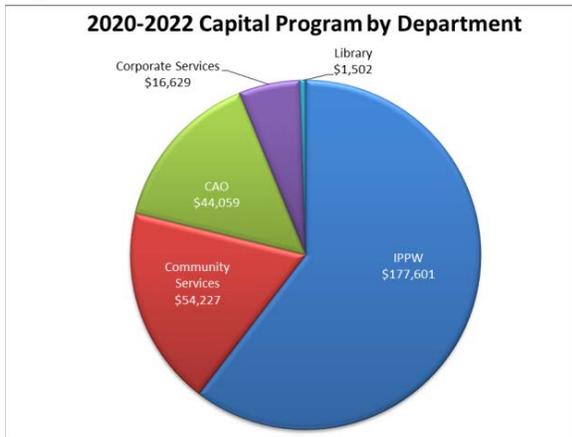
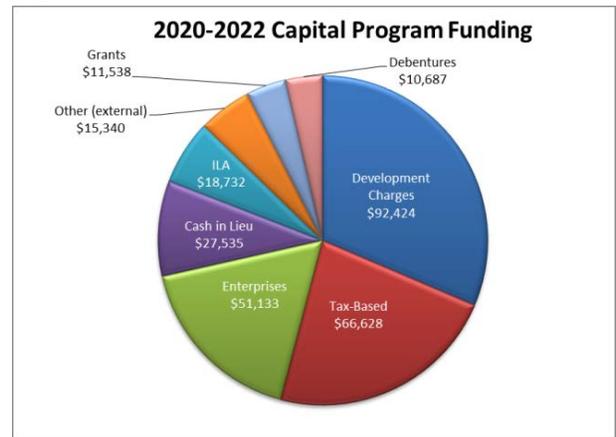


Figure 5



The proposed budget also balances investment both in rehabilitation and growth with greater emphasis on rehabilitation projects in the long term (Figure 6 and 7). In recent years, the City of Waterloo council has made significant changes to financial policies and tools to better balance the often competing needs of growth and rehabilitation. These changes include a Comprehensive Asset Management Plan, the development of a Long Term Financial Plan, the redirecting of reserve contributions towards increased rehabilitation, and the consolidation and redefining of reserve funds so that growth and rehabilitation can now be tracked directly through the funding source. The impacts of these changes are not immediate but long term. The impact of these positive actions is evident in the charts below. The percentage of funding allocated to growth versus rehabilitation will continue to be influenced in the coming years by the Long Term Financial Plan, the Asset Management Plan, and policy updates.

Figure 6

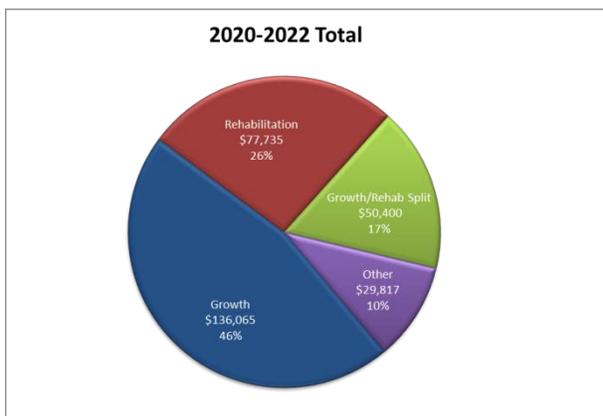
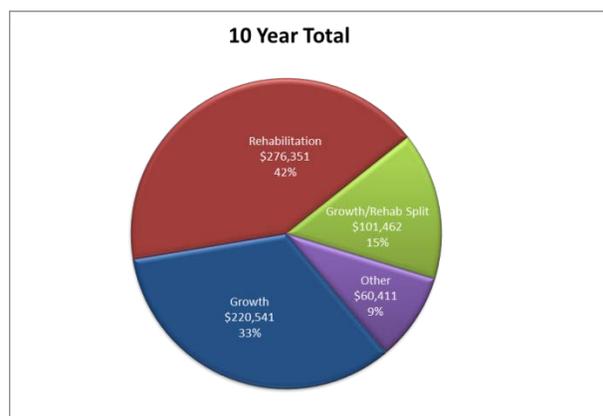
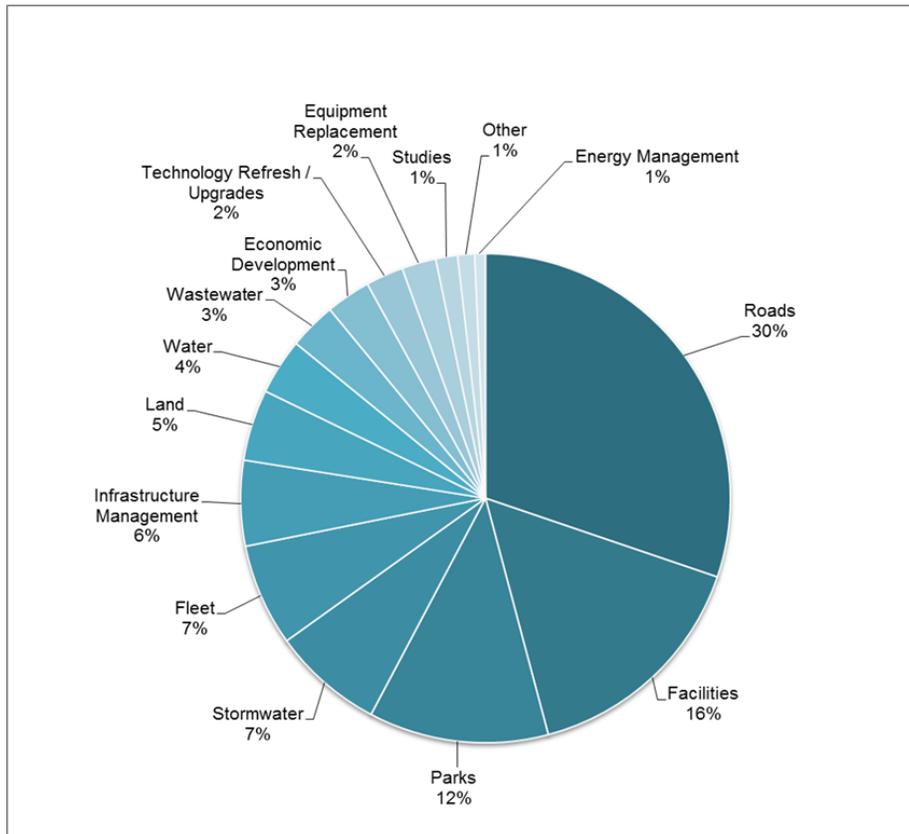


Figure 7



Over the next 10 years the city plans on spending \$658.8 million on the following investments. Road reconstruction , facility expansion, facility refurbishment and parks account for 58% of the entire budget.

Figure 8



3.2 Operating Impacts of Capital

When considering the merits of an expansion project, or new asset purchase or construction, it is also important to consider the impact that these projects will have on future operating costs. There is almost always an operating impact related to a capital project. Construction of a new facility may require more funding to pay for staff to run programs, to pay utility bills, cleaning, parking lot and sidewalk snow clearing etc.

Within the proposed three year operating budget, there are operating impacts of capital that are committed, and others that are actionable. There are \$2.6M of operating impacts that can be influenced by council's decision making within the 2020-2022 budget.

Committed

These operating impacts are a result of projects previously approved in a prior capital budget for which the operating impacts are now being realized. These amount to \$1.1M

Actionable

These operating impacts are the result of projects proposed to receive funding in 2020-2022. The operating impacts associated with these projects extend beyond 2022 and amount to \$2.6M.

Forecast

These operating impacts are associated with projects proposed to receive funding during the years, 2023-2029. The operating impacts associated with these projects amount to \$6.2M.

3.3 Approval Process - Reporting Criteria

Once approved by council on February 10, 2020, capital projects identified as “routine” can have funding released immediately. Capital projects identified as “non-routine” will need to return to council at a future date with a report for council’s consideration. If council approves the report, only then will funding be released.

“Non-routine” projects are those that are:

- Financially material (>\$5M in total over the years 2020-2022)
- High public/council interest
- Requested by council

On February 3, 2020 council will review the reporting criteria for each project and either approve the classifications as provided or amend them. The February 10th capital budget will then be presented for council’s approval based on the outcomes of the February 3rd capital classification meeting.

In the 2020-2022 proposed capital budget, there are:

- 201 routine projects with a value of \$117M
- 58 non-routine projects with a value of \$177M

Next Steps

As noted earlier in the report, staff will be presenting the Business Plans to council over the month of January and the capital project classification will be reviewed with council on February 3rd. This will be an opportunity for council to work through the details with staff and deliberate on the proposed changes. The budget survey results will be provided to council in the February 10th meeting package, as input into final council decision making on the three year budget.

APPENDIX A

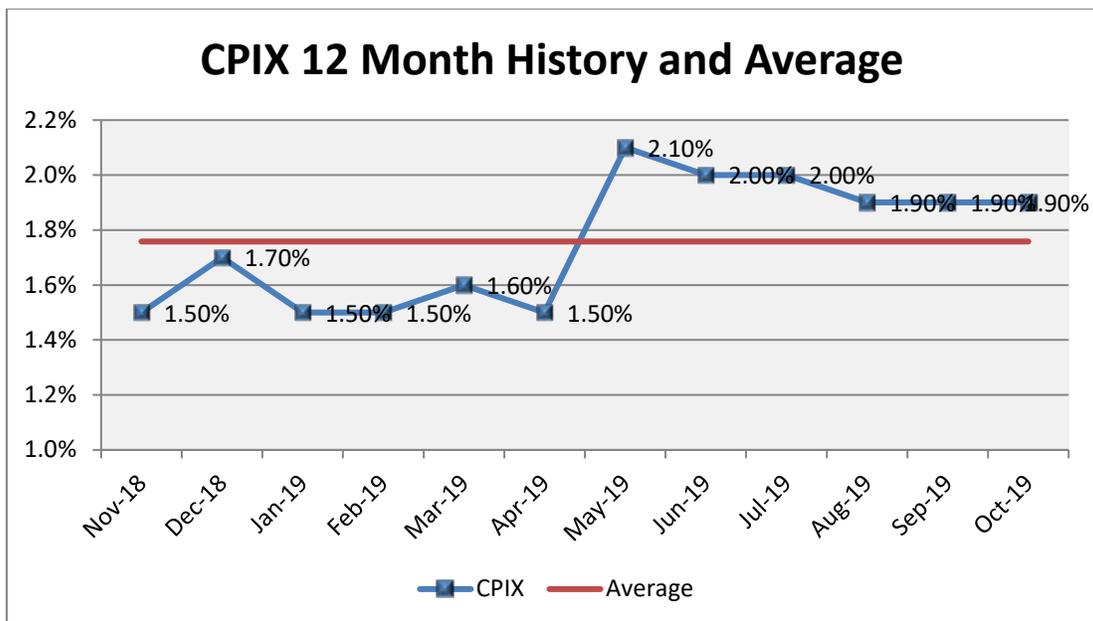
Inflationary Measures

Core Consumer Price Index (CPIX)

The Core Consumer Price Index (CPIX) is the Consumer Price Index (CPI) excluding eight of the most volatile components (fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products) as well as the effect of changes in indirect taxes on the remaining components. As per the CPIX Policy FC-019, staff is to report to council a yearly rolling average of the Core Consumer Price Index (CPIX) which was done in September 2019 via report CORP2019-061. At that time, the 12 month rolling average for CPIX was at 1.68% based on the most current information at the time (up to July 2019). The most current published CPIX is 1.9% in October and the most current rolling 12 month average of CPIX (Nov. 2018 to Oct. 2019) is 1.76%. See Figure 1.

The draft 2020-2022 operating budget has been developed in accordance with policy FC-019, which states that CPIX will act as a guideline for property tax increases (base budget net of efficiencies plus operating impacts of capital and assessment growth).

Figure 1



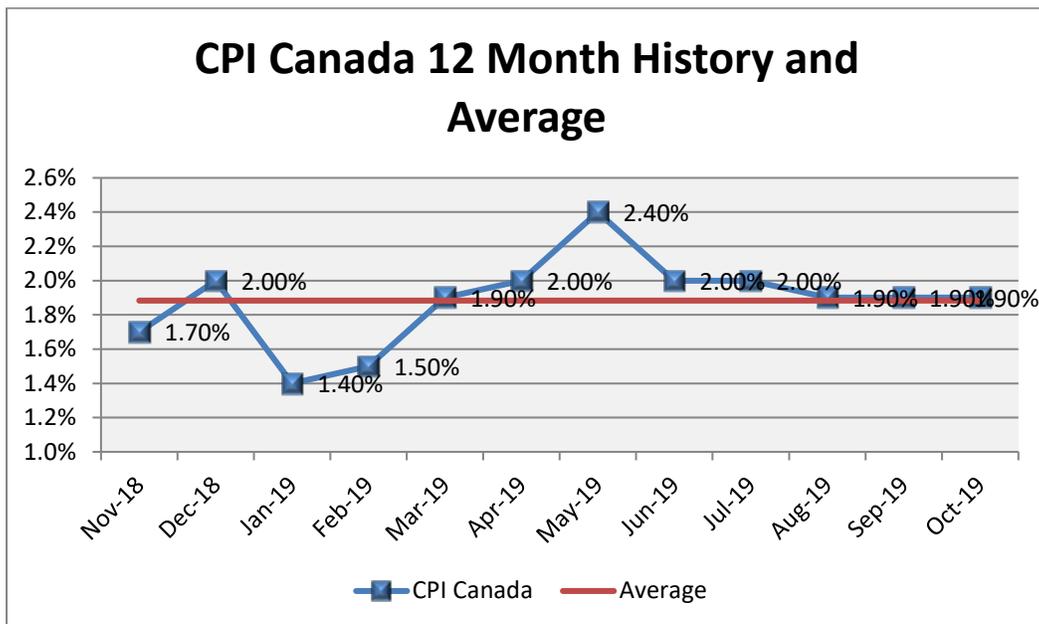
The average of 1.76% (red line) is lower than the most recent inflation measure of 1.90% in October. A lower core inflation rate between the months of November 2018 and April 2019 is the driver of the lower average.

Consumer Price Index Canada (CPI)

Another commonly used measure of inflation is the Consumer Price Index (CPI), which provides a broad measure of the cost of living in Canada. While there are other ways to measure price changes, the CPI is the most important indicator because of its widespread use. Through the CPI, Statistics Canada track on a monthly basis, the retail price of a representative shopping basket of about 600 goods and services from an average household's expenditures on food, housing, transportation, furniture, clothing and recreation.

The rolling 12 month average (Nov. 2018 to Oct. 2019) of 1.88% (red line) is slightly lower than the most recent inflation measure of 1.9% in October. Again, lower inflation rates at the tail end of 2018 and the beginning of 2019 are the cause of the lower average. Shelter, transportation, energy and services prices all increased during this period.

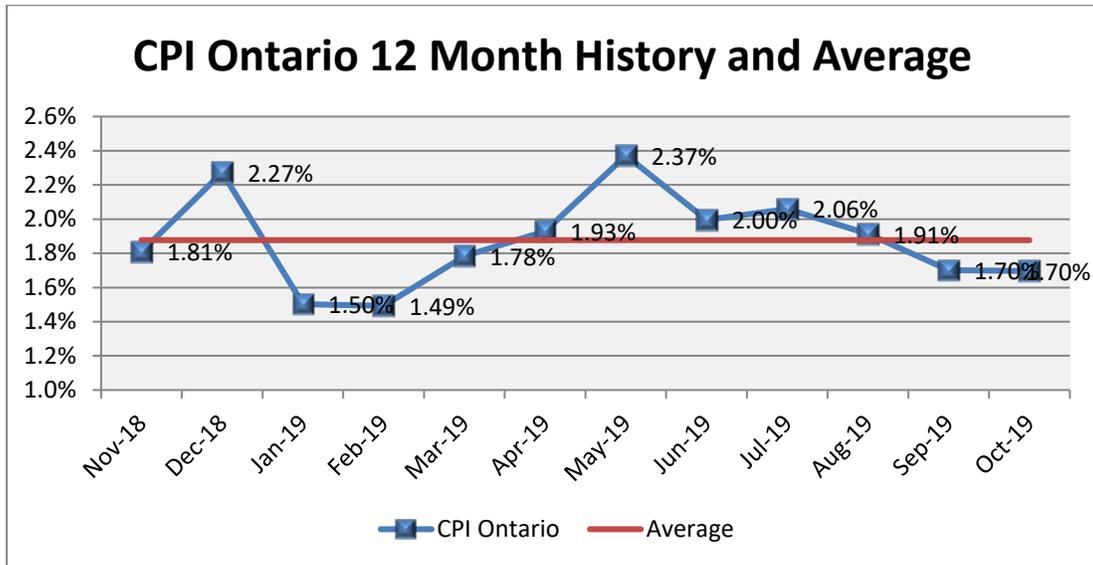
Figure 2



Consumer Price Index Ontario (CPI)

Figure 3 focuses on the Consumer Price Index specifically in the province of Ontario. The rolling 12 month average (Nov. 2018 to Oct. 2019) of 1.88% (red line) for CPI Ontario is the same as CPI Canada. The average is higher than the October inflation rate of 1.70%. The peaks and valleys of this specific 12 month time line closely resemble CPI Canada.

Figure 3



Construction Price Index

The Construction Price Index utilized by the city for capital budgeting is from the Greater Toronto Area, non-residential version. The most recent measure is 3.31% (Q3 2018 to Q3 2019). See Figure 4 below for a year over year change in the index since Q1 2018.

Contractor prices for the construction of new non-residential buildings is another index used by municipalities for the purposes of considering inflation of capital projects. The index is made up of 11 geographical areas: St. John's, Halifax, Moncton, Montreal, Ottawa, Toronto, Winnipeg, Saskatoon, Calgary, Edmonton, Vancouver. The City of Waterloo focuses on the Toronto index (given its proximity to Waterloo). The index is calculated on a quarterly basis by Statistics Canada. The latest quarter available has the Toronto index (Q3 2019 versus Q3 2018) at 3.31%, an average increase of 4.4% from Q1 2018 to Q3 2019 (seven quarters), and an average increase over the past four quarters (Q4 2018 to Q3 2019) of 4.6%.

Figure 4

