

The Regional Municipality of York

Committee of the Whole
Finance and Administration
May 4, 2023

Report of the Commissioner of Finance

2024 Budget Directions

1. Recommendations

1. Council endorse the proposed timelines for the development and approval of the 2024 Budget, as outlined in Table 3.
2. Council reaffirm a 2024 tax levy increase target of 2.75% and a Rapid Transit / Infrastructure Levy equivalent to a 1% tax levy increase, subject to the potential impact of the Bill 23, *More Homes Built Faster Act, 2022* (Bill 23).

2. Summary

As is the custom in York Region, staff provides information on the development of the 2024 Budget and Outlook for 2025 and 2026 and seeks Council endorsement of the proposed budget timelines and reaffirmation of the outlook for 2024 endorsed as part of the 2023 Budget.

Key Points:

- With Council reaffirmation, the 2024-2026 Budget will be developed based on the Outlook endorsed as part of the [2023 Budget](#), which reflected projected resource needs to ensure programs, services and infrastructure keep pace with the Region's growing economy and population
- The Budget will be developed to align with the 2023 to 2027 Strategic Plan
- Legislative changes, such as the implementation of the Bill 23, *More Homes Built Faster Act, 2022* (Bill 23), continue to represent risks to the budget that could require additional tax levy and water and wastewater user rate increases
- As part of each annual budget process, Regional staff review and identify areas for potential efficiencies and cost-savings to help minimize potential pressures and service impacts
- It is proposed the 2024 Budget be tabled with Council in November 2023, with consideration of approval in December 2023

- Program or service areas with governing boards will be required to finalize their budgets by the end of October to meet the proposed timeline for the Region's 2024 Budget
- Should Council members wish to discuss specific budget priority items for potential inclusion in the 2024 budget as department budget submissions are being developed, they are encouraged to reach out to senior management by June 30. Staff will investigate and report back on the feasibility of such items and any incremental tax levy impact for Council consideration as part of budget tabling

3. Background

The 2024 Budget will be the second year of the 2023-2026 Multi-year Budget

Since 2015, the Region has adopted a multi-year budget approach, which includes an approved budget and an outlook that aligns with term of Council.

Multi-year budgeting provides several advantages, including enabling better coordination of budgeting and strategic priorities, providing greater certainty for departments in managing their expenditures, and supporting long-term financial sustainability through the implementation of the fiscal strategy.

Multi-year budget endorsement does not eliminate the annual budget approval process. It recognizes that circumstances may change over time and the outlook is revisited every year and adjusted as necessary. This was the case for the 2021 and 2022 budget, where the outlook was adjusted to reflect impacts of the COVID-19 pandemic. Each year following the start of the multi-year budget, Council is asked to reaffirm the outlook endorsed as part of the prior year's process.

On February 23, 2023, Council approved the first year of the multi-year budget and an outlook for the following three years, covering the period of this Council term. The 2023 Budget was approved with a tax levy increase after assessment growth of 2.90% with a further 1% Rapid Transit / Infrastructure Levy.

The outlook for the final three years of the 2023-2026 Multi-year Budget includes tax increases of 2.75%, 2.60% and 2.60% respectively, and a Rapid Transit / Infrastructure Levy equivalent to a 1% tax levy increase. With Council reaffirmation, this outlook will form the basis for budget development the following year. The 2024 Budget will be the second year of the current Multi-year Budget, as shown in Table 1, which aligns with the term of Council.

Table 1
Annual Operating Budget Approval

Annual Budget Year to approve	Outlook Years to endorse
2023	2024-2026
2024	2025-2026
2025	2026
2026	none

The 2024-2026 Budget will continue to focus on long-term financial sustainability

The Region’s Fiscal Strategy, first adopted by Council for the 2014 Budget, is updated and approved annually alongside the budget. The Fiscal Strategy consists of three related elements: capital management, reserve management, and debt management, and is guided by the principles of long-term financial sustainability and inter-generational equity. Achieving the principles and objectives of the Fiscal Strategy includes, among other things, ensuring that capital spending is aligned with the expected timing of growth. It also requires reserve contributions that allow the Region to meet growing asset management needs without issuing new debt.

Determining the appropriate level of reserve contributions includes an assessment of long-term needs and development of a plan to spread the contributions over the life of capital assets. This helps ensure costs are shared between current and future users of the asset base. Capital reserve contributions grew during the last multi-year budget, accounting for 1.32% of the tax levy increase in 2022. The 2023 Budget includes a temporary reduction in contributions to help address operating budget pressures, with increases projected to resume in the 2024-2026 outlook.

4. Analysis

Bill 23’s changes to the *Development Charges Act, 1997* may require further tax levy and water and wastewater user rate increases to offset the development charges collections shortfalls

On February 9, 2023 a [memo](#) was presented to the Committee of the Whole, which provided additional information on the financial impacts of Bill 23’s changes to how municipalities fund growth-related infrastructure in the context of the 2023 Budget. Two scenarios of projected development charges revenue shortfalls were presented. The first scenario estimates the impact of the largely known changes resulting from Bill 23, which are expected to reduce

development charges collections by \$497 million from 2023 to 2032. The second scenario includes the impact of new housing exemptions and discounts and adds an additional \$1.1 billion in potential reductions to development charges collections over the next ten years.

Inflationary increases related to the Non-Residential Building Construction Price Index (NRBCPI) have further been incorporated into the projected development charges shortfall to align with the 2024 Budget and projected development charge collections. Updating for NRBCPI and extending the analysis by one year to align with the 2024 planning horizon increases the first scenario from \$497 million to \$710 million and increases the second scenario from \$1.6 billion to \$1.9 billion. Further regulatory guidance from the Province is expected and will be included in the analysis and discussion in the Fiscal Sustainability Update report to be brought forward to Council in June.

To offset the actual, projected and possible development charges collection shortfalls, tax levy and water and wastewater user rate increases could be required. Table 2 provides a summary of the one-time additional incremental tax levy and user rate increases that could be used to ensure growth projects remain fully funded. While the increase is one time, the ongoing annual revenue associated with these increases over 10 years would be required to address the shortfall.

Table 2

Potential One-time Tax Levy and Water and Wastewater User Rate Impact on 2024 Budget

Development Charges Shortfall (2023-2033)	Tax Levy	User Rate
Known Impacts (\$710 million)	3.6%	6.2%
All Impacts* (\$1.9 billion)	10.2%	16.1%

Note: * All Impacts scenario includes the Known Impacts scenario and the impact of new housing exemptions and discounts pending further regulatory guidance from the Province.

Although increases to the tax levy and user rates are not the only option for addressing the shortfall, they are a helpful way to assess the magnitude of the development charge collections shortfall brought on by Bill 23. In practice, and in accordance with the February memo and presentation to Council on February 23, 2023, other options are possible and will be explored in developing a final budget recommendation. Staff will also provide an additional update on this matter as part of the Fiscal Sustainability Update report which will be brought to Council in June.

Assessing pressures and risks helps identify and inform potential budget impacts and mitigation strategies

Reviewing potential pressures and risks will be a key part of developing the 2024 budget. This assessment will help inform the potential need for adjustments to the outlook endorsed

as part of the 2023 Budget and any strategies and actions to help minimize the impact on programs and services. The assessment will include reviewing assumptions reflected in the 2023 budget and outlook figures, such as inflation, interest rates and other economic variables.

Programs and services linked to legislated and other commitments will also be reviewed to determine impacts from any potential changes by senior governments. In addition, the 2024 budget process will begin to identify options for developing an ongoing funding source for the \$12.8 million initiative to support critical social infrastructure included in the 2023 Budget. Council direction for the initiative included development of an update as part of the 2025 budget process, including options to shift the funding from the Pandemic Management and Recovery Reserve to a sustainable ongoing funding source beyond 2024.

Opportunities for efficiencies and potential savings are reviewed as part of the annual budget process

To help manage potential pressures and minimize impacts on programs and services, an important part of the annual budget process is the review of base budget items for cost savings, reductions and other efficiencies. For the 2024 Budget, these potential savings could help offset risks such as the wind-down of senior government funding to support transit recovery from the pandemic, the tax levy impacts of creating a permanent funding source for the \$12.8 million Supporting Critical Social Infrastructure initiative approved as part of the 2023 Budget, and additional costs resulting from the reduction in development charge revenues through Bill 23.

Table 3 shows the savings framework and approaches that were used in previous budgets and may be considered as part of the 2024 budget development process. The framework helps identify potential savings initiatives and key considerations, including program and service impacts, financial risks, and achievement of Strategic Plan objectives.

Table 3
Framework to Assess Potential Savings

1. Efficiencies	2. Service Level Adjustment	3. Risk Tolerance and Other
Identify programs and services for efficiencies, and other cost-savings	Adjust programs and service levels to reduce costs	Review assumptions in light of potential risks and update expenditure and revenue forecasts as necessary

The endorsed 2023 10-year capital plan will be used as the foundation for the development of the 2024 capital plan

The 10-year capital plan was endorsed by Council as part of the 2023 Budget approved on February 23, 2023 and will be used as the foundation for the development of the 2024 10-

year capital plan. Changes to the previously endorsed plan will include the new tenth year of 2033 and may also include revisions to costs and timing of existing capital projects. In some cases, requests to add new capital projects into the plan may be proposed, including those identified in the 2022 Development Charge Background Study, a new Community Housing Development Master Plan to be completed in 2023, updates to existing Master Plans to meet new housing targets as a result of Bill 23, or other Council priorities such as achieving net-zero greenhouse gas emissions by 2050.

The 2024 Budget is expected to continue a 1% annual Rapid Transit / Infrastructure Levy to help fund the Region's share of the Yonge North Subway Extension. The outlook for 2025 to 2026 includes the continuation of an annual incremental 1% levy to support new capital infrastructure projects as identified in master plans.

As part of the 2023 budget, departments identified \$2.0 billion in priority projects beyond those included in the capital plan which are reliant on senior government funding commitments that have not yet been secured. These include the advancement of the Region's bus rapid transit network and additional affordable housing initiatives. The potential inclusion of these projects in the Region's 2024 10-year capital plan is subject to availability of funding from senior levels of government and the Region's fiscal capacity.

Council will be asked to approve 2024 single-year capital expenditures and Capital Spending Authority (CSA), including associated funding sources. Capital Spending Authority is the authority from Council to commit multi-year funding to those capital projects with clear and certain multi-year commitments.

Recent budgets do not fully accommodate rising asset management needs

The Region's asset management planning considers the lifecycle costs of the Region's existing asset portfolio, with an estimated replacement value of \$19 billion. As these assets age, and as the Region delivers an estimated \$4.9 billion in new assets over the next 10 years, increases in capital rehabilitation and replacement budgets will be required. Delivery capacity, including the availability of Regional and external resources, will be a key factor guiding the scope and scale of the asset management program.

Contributions to asset management reserves, which fund these needs without issuing new debt, will also need to continue. Contributions declined in the 2023 budget to help address other funding pressures but are planned to increase starting in 2024. Additional increases will be needed to support the fiscal strategy objective of intergenerational equity, in which each generation pays their fair share.

The 2024-2026 Budget is proposed to be tabled in November 2023 and considered for approval in December 2023

With the municipal election in October 2022 and a new term of Council, the 2023 Budget timeline included Council approval of the budget in February 2023. The 2024 Budget is proposed to be tabled with Council in November 2023, as is typically the case for non-election years. Departmental budget reviews would take place at the Committee of the

Whole meetings in December 2023, followed by final budget approval considered by Council at its December meeting.

Development of the 2024 Budget will include several meetings of the Budget Leadership Team, comprised of senior staff from Regional departments and boards to shape budget development and track progress. Reviews by the Chief Administrative Officer and the Regional Chair will take place in the fall of 2023, prior to tabling the budget with Council in November 2023.

Table 4 summarizes the key dates in the proposed 2024 Budget process.

Table 4
Proposed 2024-2026 Budget Timeline

Key Activities/ Milestones	Date
Budget Directions Report to Committee of the Whole	May 4, 2023
Development of departmental budget	May – July/August 2023
Senior management reviews, staff deliberation and development of recommendation to Council	August – October 2023
Board approval/review of Budgets for York Regional Police, York Region Rapid Transit Corporation, Housing York Inc. and YorkNet	By end of October 2023
Table Budget with Council	November 2023
Committee of the Whole reviews – Departments	December 2023
Tentative Budget approval	December 2023

Program or service areas with governing boards (York Regional Police, York Region Rapid Transit Corporation, Housing York Inc. and YorkNet) will be required to finalize their budgets by the end of October 2023 to meet the proposed timeline for the Region’s 2024-2026 Budget, including review and approval of budgets to be consolidated as part of the Region’s budget.

Should Council members wish to discuss specific budget priority items for potential inclusion in the 2024 budget as department budget submissions are being developed, they are encouraged to reach out to senior management by June 30. Staff will investigate and report back on the feasibility of such items and any incremental tax levy impact for Council consideration as part of budget tabling.

The Multi-year Budget process supports the 2023 to 2027 Strategic Plan

The *2023 to 2027 Strategic Plan* guides the multi-year business planning and budgeting process. Priorities outlined in the Strategic Plan will be reflected in the 2024 and future Regional budgets. Anchoring the Strategic Plan in core services ensures the Region continues to meet its legislative obligations while remaining flexible and responsive to the changing needs of our residents. York Region's ability to achieve the 2023 to 2027 Strategic Plan objectives will be reflected in next year's Progress Report demonstrating 2023 results on performance measures.

5. Financial

While there are no direct financial implications associated with this report, the direction provided by this report will inform the development of the 2024-2026 Budget. The Budget establishes expenditures and funding for the provision of Regional services in 2024, and the outlook for 2025-2026 will form the basis of the budget process in those years.

6. Local Impact


There is no direct local municipal impact associated with this report. The 2024-2026 budget will fund services and capital infrastructure for residents and businesses in all local municipalities within York Region. Certainty and discipline in the budget help local municipalities with their budget planning.

7. Conclusion

This report seeks Council endorsement of the proposed timelines for development and approval of the 2024 Budget and a target tax levy increase of 2.75% and a Rapid Transit / Infrastructure Levy equivalent to a 1% tax levy increase.

It is proposed that the 2024-2026 Budget be tabled with Council in November 2023, with consideration of approval in December 2023.

For more information on this report, please contact Kelly Strueby, Director, Office of the Budget, at 1-877-464-9675 ext. 71611. Accessible formats or communication supports are available upon request.



Recommended by:

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Approved for Submission:

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