

City of Mississauga
Corporate Report



<p>Date: November 20, 2024</p> <p>To: Chair and Members of Budget Committee</p>	<p>Originator's files:</p>
<p>From: Geoff Wright, P.Eng, MBA, City Manager and Chief Administrative Officer</p>	<p>Meeting date: November 25, 2024</p>

Subject

Summary of 2025 Proposed Budget Amendments

Recommendation

That the "Summary of 2025 Proposed Budget Amendments" report dated November 20, 2024 from the City Manager and Chief Administrative officer be received for information.

Executive Summary

- On October 29, 2024, the proposed 2025-2028 Business Plan & 2025 Budget was released, outlining a net operating budget of \$735.25 million, a \$53.3 million or 7.2% operating budget increase. Based on the City's 37% share of the total tax bill, this translates to a 2.7% increase on the City's share of the total tax levy.
- At the November 18 and 19, 2024 Budget Committee meetings, the Committee approved additional changes to the City's programs, services and initiatives that have an impact to the 2025 Budget.
- The proposed 2025 budget amendments as outlined in this report, if approved, would result in an additional operating levy requirement of \$11.6 million, and a revised operating budget increase of 8.9%. This translates to a 3.3% increase on the City's share of the total tax levy increase.
- The proposed 2025 budget amendments also include a one-time 2025 capital cost impact of \$9.25 million in property acquisition and equipment purchase costs relating to the driveway windrow clearing program and \$9.1 million for the secondary sidewalk program, to be funded from the Tax Capital Reserve Fund.
- Members of Budget Committee have requested staff to update the Committee the status

of the City's reserves and reserve funds, and whether they can be used to offset some of impacts of the 2025 tax increase.

- At the November 18, 2024 meeting, Budget Committee also requested information on the impacts of the Greater Toronto Airports Authority (GTAA)'s payment-in-lieu of taxes revenue shortfall. The total 2022 to 2024 budgeted shortfalls relating to pandemic impacts are \$51.1 million, which were offset by Safe Restart funding and the Fiscal Stability Reserve. The estimated shortfalls from the 5% regulated PILT cap on revenue from 2007 to 2021 is \$18.4 million, prior to the suspension of the cap due to the pandemic. The cap is anticipated to be reinstated in 2027 once the passenger count returns to the pre-pandemic level of 49 million, unless there is a change to the provincial regulation.
- Due to the Strong Mayor Powers legislation, the budget is deemed adopted at the end of the 55-day budget amendment, mayoral veto and override periods. For the 2025 Budget, the end of that 55-day period is December 24, 2024. Should there be any in-year budget and tax levy changes in early 2025, those changes can be incorporated into the calculation of the 2025 tax bill, as long as they are approved prior to the approval of the Final 2025 Tax Ratios, Rates and Due Dates report in April 2025.

Background

On October 29, 2024, the proposed 2025-2028 Business Plan & 2025 Budget was released, outlining a net operating budget and tax levy requirement of \$735.25 million, a \$53.3 million (or 7.2%) operating budget increase. Based on the City's 37% share of the total tax bill, this would translate to a 2.7% tax levy increase for Mississauga's share of the total tax bill.

According to the Region of Peel's 2025 proposed budget, that was released on November 7, 2024, they had proposed a 12.5% budget increase, which translates to the Mississauga apportioned tax bill increase of 6.0%. Combined with the City of Mississauga's proposed increase, this translates to a combined tax bill impact of 8.7%, prior to the approved budget amendments.

During the November 18 and 19, 2024 Budget Committee meetings, the Committee voted to approve initiatives presented in six reports that resulted in additional budget and tax impacts. Council will be reviewing other proposed budget amendments at the November 25, 2024 Budget Committee meeting and November 27, 2024 Council meeting.

Comments

Impacts of Proposed Budget Amendments:

At the November 18 and 19, 2024 Budget Committee meetings, the Committee voted to approve initiatives presented in six reports that require the following changes to the proposed 2025 Budget:

2025 Budget and Tax Bill Impacts ('000s)	Proposed Budget \$000s	Budget Impact (%)	City's Share of Tax Bill Impact*	Tax Bill Impact (\$)
Original Proposed Budget	735,254	7.2%	2.7%	184
Approved Impacts from Corporate Reports:				
Free Older Adult Recreation Programming	743	0.1%	0.04%	3
Citywide Windrow Removal	5,508	0.8%	0.3%	21
Secondary Sidewalk Clearing	1,773	0.2%	0.01%	7
Enhanced Snow Removal for Bike Lanes	400	0.1%	0.04%	1
Vacuum Leaf Collection (Option 1)	1,981	0.3%	0.11%	7
Flood Resilience Rebate Program	1,000	0.2%	0.07%	4
Employee Paid Parking	133	0.0%	0.0%	1
Recreation Community Grants	62	0.0%	0.0%	0
Total Changes from Approved Impacts	11,600	1.7%	0.6%	44
Revised Proposed Budget	746,854	8.9%	3.3%	228

*Budget impact multiplied by 37% share of the property tax bill.

Based on the above increases, the City of Mississauga's budget increase would increase from the original 7.2% to 8.9%.

The 2025 Region and City combined property tax bill increase for Mississauga residents will increase from 8.7% to 9.3%:

	City's share of Tax bill impact	Region's share of Tax bill impact	Total Combined Tax bill impact
Original Proposed Budget	2.7%	6.0%	8.7%
After November 18 & 19 Decisions	3.3%	6.0%	9.3%

And below are incremental budget and tax impacts for 2026:

2026 Budget and Tax Bill Impacts ('000s)	Budget Impact (\$)	Budget Impact (%)	City's Share of Tax Bill Impact*	Tax Bill Impact (\$)
Approved Impacts from Corporate Reports:				
Free Older Adult Recreation Programming	933	0.1%	0.04%	3
Citywide Windrow Removal	14,959	2.0%	0.74%	52
Secondary Sidewalk Clearing	4,937	0.7%	0.26%	17
Enhanced Snow Removal for Bike Lanes	1,100	0.2%	0.07%	4
Vacuum Leaf Collection (Option 1)	2,079	0.3%	0.11%	7
Total	24,008	3.3%	1.22%	83

*Budget impact multiplied by 37% share of the property tax bill.

Use of reserves and reserve funds to offset budget impacts

Reserves and reserve Funds are established by Council, with funding set aside to finance specific capital purposes and unforeseen operating expenditures in order to minimize the impact to the tax rate. Historically, the use of City reserves has been to offset unforeseen costs, such as the COVID-19 pandemic or extreme weather events, and not to reduce the impacts of the tax levy as part of the budget process. The use of reserves and reserve funds without a corresponding reduction in spending would result in a higher tax rate impact in future years if it remained a recurring annual expense, such as winter maintenance.

Staff review the City's reserve and reserve funds balances annually to ensure targets are appropriate and they are forecasted for a minimum of 10 years. The oversight and management of reserves and reserve funds supports the financing of the capital program, longer-term planning strategies, and is looked upon favourably by credit rating agencies in assessing the City's overall financial health.

The 2025 budgeted contributions or transfers to reserves and reserve funds is \$263 million, and the budgeted transfer from reserve and reserve funds is \$121 million. A breakdown is provided in Appendix 1.

Fiscal Stability Reserve

The Fiscal Stability Reserve provides funding for unforeseen or uncertain liabilities or expenses that have occurred during the year that cannot be absorbed through operating budget variances. The target balance of the reserve, as outlined in Appendix 1, is 10% of the City's own source revenues, less the targets for other stabilization reserves. For 2024, our projected year-end balance of the Fiscal Stability Reserve is \$54.3 million versus a reserve fund target of \$75 million.

Since 2022, \$24.2 million was applied from the Fiscal Stability Reserve to the operating budget to offset the impacts of the COVID-19 pandemic for costs not reimbursed through the Safe Restart Funding. Back in September 2024, Budget Committee also approved the allocation of \$3 million from the Fiscal Stability Reserve towards the one-time Residential Compassionate Flood Relief Grant program, to reimburse residents impacted by the July and August severe weather events.

If the Fiscal Stability Reserve is used to support other approved initiatives from the November 18 and 19 Budget Committee meetings, this will result in a further variance below the targeted reserve balance.

Staff do not recommend the use of the Fiscal Stability Reserve to reduce impact to the tax levy as a result of the proposed amendments to the 2025 Budget, given that the reserve remains below its target balance, and that there may be a need to utilize this reserve to offset other greater unforeseen operating expenses in the future.

Winter Maintenance Reserve

The Winter Maintenance Reserve provides funds for stabilizing the City's winter maintenance program in the event of a significant number of winter events over the year. The target balance of the reserve, is based on 33% of the last 5-year average of winter maintenance expenditures.

The 2024 year-end Winter Maintenance Reserve target, as outlined in Appendix 1, is \$8.8M, with a projected 2024 year-end balance of \$9.5M. The projected balance does not include any surplus contributions to the reserve in 2024 to date. The Winter Maintenance Reserve is built up over the years through operating surpluses from winter operations. There are no annual budgeted contributions to this reserve.

The additional service options approved by Budget Committee on November 19th are permanent changes to the winter maintenance program, which will increase the overall cost of the program and consequently will increase the target of the reserve over time. Use of the reserve also presents a risk in the event of significant winter event costs in 2025 that would further deplete the reserve. Finally, while the use of the winter maintenance reserve in 2025 to offset program costs would result in a 1-year reduction of the tax levy, it will result in a greater incremental increase on the 2026 budget, unless there are other revenues to offset that pressure in 2026.

Tax Capital Reserve Fund

The Tax Capital Reserve Fund is the City's primary funding source for capital projects, and includes debt proceeds from debentures issued by the City to fund its capital program. The target balance is based on one year's worth of the 10-year forward looking average of the tax capital plan (excluding debt). The 2024 year-end reserve fund target, as outlined in Appendix 1, is \$137 million, with a projected year-end balance of \$146.7 million. This projected balance does

not include the approximately \$18.35 million capital funding required to implement the additional winter maintenance programs approved by Budget Committee on November 19th. This change will result in the Tax Capital Reserve Fund falling below its target balance, if there are no corresponding reductions to the 2025 Capital Budget by cancelling or deferring capital projects.

While staff strongly advises against the use of reserves and reserve funds to offset the 2025 budget increases approved on November 18 and 19, especially the winter maintenance service expansion, which is an annual recurring expense, the Fiscal Stability Reserve #30125 and Winter Maintenance Reserve #30120 are possible options to reduce the impacts for 2025.

Proposed amendment	2025 Operating Budget Impact for amendment	Reserves
Flood Resilience Rebate Program (one-time)	\$1 million	Fiscal Stability Reserve #30125
Winter Maintenance Service Expansion (annual recurring)	\$5.5 million	Reserve for Winter Maintenance #30120

Debt Management

The City has historically been conservative in its use of debt to minimize interest charges, however using long-term debt as a financing tool allows the City to spread out the cost of capital projects over the useful life of the assets and pass the costs onto those who use the asset over time.

The 2025 Budget includes a planned debenture issue of \$110 million to fund new and replacement capital assets to deliver city services. The debt is planned to be issued for a term between 10 to 20 years, with the budget accounting for a mid-year issuance. The specific terms of the debt, including timing and term are based on the City’s cash flow needs and market conditions. Staff work closely with the Region of Peel to assess the right time and structure of the debt to deliver best value.

The City’s forecasted debt balance at the end of 2024 is approximately \$260 million. Due to the difficulty in the Region of Peel accessing capital markets as a result of Bill 185, debt approved in the 2024 budget has not yet been issued. The total 2025 budgeted contributions towards repayment of debt, including principal and interest, is \$56.1 million.

Capital Infrastructure and Debt Repayment Levy

The 2025 proposed budget includes a 3% Capital Infrastructure and Debt Repayment levy to fund priority capital projects and for debt repayment. A 1% reduction to the Capital Infrastructure and Debt Repayment levy, will either result in a reduction in transfer to the tax-funded capital reserve fund, or reduce the planned debenture issuance by approximately \$55 million.

Without a corresponding decrease or deferral of 2025 capital projects, if there is a 1% reduction to the levy, the capital reserve fund balance will experience a reduction of around \$73 million, based on reduced transfer to the capital reserve fund and the additional \$18.35 million in capital spending from the approved winter maintenance service expansion. Based on the current projected 2024 Tax Capital Reserve Fund balance of \$146.7 million to \$73.3 million, which represents a \$63.7 million negative variance from the \$137 million target reserve fund balance.

While not recommended, an alternative option, that does not jeopardize the Capital Reserve Fund balance, and does not impact the 2025 capital budget program, would be to increase the 2025 debt issuance beyond the \$110 million that was planned, to offset the elimination of the transfer to capital by increasing the debt-funded projects and decreasing the tax-funded projects. While this may help offset the 2025 impacts, it would have a compounding effect for future years due to the increase in debt repayment charges and the cumulative reduction in the transfer to the capital reserve fund. The remainder of the capital program would need to be re-prioritized in the 2026 budget to mitigate this funding gap.

2025 Budget and Tax Levy Requirement Approval Timelines

Under the Strong Mayor Powers legislation, all budget amendments must be presented within the 30-day budget amendment period (on or before November 27, 2024) from the day that the budget is released (October 29, 2024). Should the Mayor, as Head of Council, choose not to exercise her Mayoral veto powers and shortens her veto period, the budget could be deemed adopted on or immediately after November 27, 2024.

However, if the Mayoral veto does occur within 10 days thereafter, on or before December 9, 2024, and if Council elects to meet and vote on overriding the Mayoral veto within the 15 days thereafter, then the 2025 Budget would be deemed adopted on December 24, 2024.

Should there be any in-year budget and tax levy changes in early 2025, such as those resulting from Bill 112 and Bill 185 amendments from the Province of Ontario, those changes can still be incorporated into the calculation of the 2025 tax bill, as long as they are approved prior to the approval of the Final 2025 Tax Ratios, Rates and Due dates report that will be presented to Council in April 2025.

Financial Impact

There is no financial impact as a result of this report.

Conclusion

Council will have until November 27, 2024 to propose amendments to the 2025 budget.

Once the final budget is adopted, the amended budget and tax impacts will be presented on a summary page and inserted into the final 2025 Budget book.

Attachments

Appendix 1: 2024 Projected Reserves and Reserve Funds Balances

Appendix 2: GTAA PILT schedule



Geoff Wright, P.Eng, MBA, City Manager and Chief Administrative Officer

Prepared by: Marisa Chiu, CPA, CA, Chief Financial Officer & Treasurer