



Administrative Report

Office of the Director, Financial Services/Treasurer

To: Warden MacDonald and Members of Essex County Council

From: Sandra Zwiers, MAcc, CPA, CA
Director, Financial Services/Treasurer

Date: Wednesday, December 07, 2022

Subject: 2023 Budget Overview – Treasurer’s Report

Report #: 2022-1207-FIN-R015-SZ

Purpose

The purpose of the report is to provide Council with a corporate overview of the issues affecting the operations for 2023 and their corresponding impact on the County Levy and municipal tax rates.

Background

The preparation of annual estimates for the upper tier is prescribed by Section 289 of the *Municipal Act 2001, S.O. 2001, c.25*.

An upper-tier municipality shall in each year prepare and adopt a budget including estimates of all sums required during the year for the purposes of the upper-tier municipality...

In preparing the budget, the upper-tier municipality shall treat any operating surplus of any previous year as revenue that will be available during the current year; shall provide for any operating deficit of any previous year... and may provide for such reserves as the upper-tier municipality considers necessary.

Budget Process

The annual budget process commences each year in July with Administration meeting periodically to discuss a variety of budget planning issues, including:

- Development of critical budgeting assumptions

- Review of departmental work plans
- Establishment of a timetable for budget presentation
- Improvements in the form and content

The timetable established for the 2023 Budget is summarized as follows:

- July 2022 – review budget assumptions, prior year budget document and projected year end balances. Financial Services prepares detailed wage and benefit schedules and begins working with operational staff to prepare supporting calculations and current year projections (which are updated monthly) for each department;
- August 2022 – Director of Financial Services and CAO meet to review overall tax rate goals and identify areas of strategic focus for 2023;
- September 2022 – Department Heads submit draft business cases in support of service enhancements which are then reviewed by the CAO for possible inclusion in the draft budget;
- October 2022 – Preliminary departmental estimates undergo detailed administrative review with Department Heads, financial analysts, Director of Financial Services and Manager of Budget and Administration;
- November 2022 – review and consultation with the CAO, final revisions to draft Budget and filing of Budget document with County Council;
- December 2022 – County Council review of departmental submissions
- January 2023 - Final Budget Adoption in accordance with Section 289 (1.1) of the Municipal Act which sets out that a budget for a year immediately following a year in which a regular election is held, may only be adopted in the year to which the budget applies.

Building on the improved transparency between operating and capital costs in 2022, the 2023 budget provides greater delineation of the services provided under the General Government and Emergency Medical Services departments. The General Government budget now separates Corporate Management (services of the CAO, Clerk, Communications and Legal) from Financial and Information Technology Services. The Emergency Medical Services budget now highlights the Community Paramedicine – Long-Term

Care program separate from core EMS and Emergency Management services.

The Budget Report is segregated into the following departments:

- Community Services
- Sun Parlor Home
- Emergency Services
 - EMS
 - Community Paramedicine – Long-Term Care
 - Emergency Management
- Infrastructure and Planning Services
 - Infrastructure
 - Planning
- Library Services
- General Government Services
 - Council
 - Corporate Management
 - Financial and Information Technology
 - Human Resources
- External Commitments

Each departmental section of the Budget Report is comprised of two specific components: a strategic level qualitative analysis followed by a line item presentation of the departmental requirement.

The departmental estimates identify expenditure and recovery classifications. With few exceptions, expenditure and recovery classifications are consistent throughout the Budget Report. In limited cases, exceptions to the uniformity principle are necessary to facilitate the unique operating circumstances or reporting requirements of the program, division or department.

The presentation of the estimates for each departmental program begins with a description of operating expenditures by classification, followed by a quantification of recoveries and/or contributions to (from) reserves, concluding with the identification of the amount that the County will contribute toward the operation or program – referred to as the Net Operating Expenditures. This is then repeated to determine Net Capital Expenditures. The sum of these two sections is the total amount that the County will contribute, noted as the Total Departmental Requirement.

Totals are determined for each classification of expenditure and recovery for all classes in combination. All totals and the measurement of the County Responsibility are shaded for ease of identification. Totals are established for

each program, summarized by function or department at the beginning of each of the department sections and then summarized corporately on the 2023 Budget Summary (Appendix B).

The operating estimates for the Corporation address the following two principal functions:

- Services provided / delivered directly by the County
- Funding provided to agencies external to the County

External commitments funded by the County can be classified as mandatory (i.e. required by legislation or regulation) or discretionary (i.e. nature and extent determined by County Council).

Budget estimates were prepared under the premise that existing service levels are acceptable, and proposed enhancements have only been advanced in circumstances where current service levels expose the Corporation to undue risk or are judged to fall short of mandated or endorsed standards. One-time expenditures are proposed to be funded by the Corporation’s Rate Stabilization Reserve, and provincial funding will be used to offset one-time expenditures that specifically relate to COVID-19 prevention or containment initiatives.

The estimates are determined using a combination of incremental budgeting and modified zero-based budgeting. Estimates for routine, ongoing operational expenditures are prepared by analyzing current expenditures and projecting costs for the upcoming year. Discretionary expenditures are reviewed and must be fully rationalized annually.

Inherent in the development of the Budget is the recognition of risk. Estimates are prepared based on an evaluation of the best information available, in light of current operating conditions and circumstances. As budget estimates are developed, care is exercised in assessing the risk of the likelihood of different outcomes materializing and the effect such outcomes may have on service delivery levels and financial results.

The work plans and associated expenditures contained in the Budget are intended to position Essex County as a vibrant, sustainable and healthy community that fosters opportunity and promotes an enriched quality of life by:

- Delivering regional and/or broad-based services that meet the evolving needs of the community;
- Operating efficiently and effectively in a fiscally responsible manner;
- Being a leader in community building initiatives;

- Managing the impacts of growth to provide a livable, energetic and thriving community, making Essex County a preeminent location to live, learn, work, play, invest and visit.

The Budget reflects the vision of Council, focusing upon its core values as they relate to service delivery while simultaneously looking forward, preparing to meet the challenges of the future.

Discussion

The development of the 2023 County of Essex Budget builds upon Council’s commitment to accountability, transparency and excellence in financial management. Provided below are high level discussions on various matters having corporate significance in terms of risks, financial impacts, challenges, opportunities and external influences on County of Essex operations for 2023 and beyond.

COVID-19

The pandemic continued to impact operations and policies throughout 2022. The Corporation, following closely the recommendations of regional and provincial health experts, navigated the various waves of COVID-19. The 2023 Budget continues to include pandemic related operational costs such as increased janitorial/sanitization costs, personal protective equipment and supports for remote work. Prudent management of provincially supplied pandemic relief funds resulted in remaining funds in the Corporation’s Safe Restart Reserve at the end of 2022 which will be used to fully offset these operating cost pressures in 2023.

Inflation

The past budget year was impacted by significant inflation. Many goods and services increased beyond their budgeted cost requiring administration to implement mitigating actions and, on occasion, seek support from County Council to access Rate Stabilization Reserves to maintain project plans and service levels. Inflation rates have decreased as a result of the Bank of Canada’s monetary policies to increase interest rates however inflation pressures persist. The 2023 Budget assumes inflation will continue at moderate levels with higher levels of inflation reflected in known areas of more sensitive goods such as fuel, food and fleet related parts and supplies.

Growth

In the fall of 2021, when the 2022 Budget was developed, announcements were made that the region’s automobile manufacturing plant would reduce

operating shifts. In less than a year, the economic outlook for the region has seen an about face. Instead of projected job loss, the region now anticipates significant growth in the large industrial sector as a result of the announcement of an electric vehicle battery plant and potential feeder plants. The advancement of plans to construct the New Windsor Essex Hospital is also positioning the region to be a hot bed of investment and residential growth. The Corporation’s capital plans, while robust, do not reflect funding models or construction timelines at an advanced pace. The slow and steady growth patterns of the past have afforded the County a solid foundation of tax levy and reserves however with development required to occur faster than planned and during times of elevated inflation, there will be additional pressure on the tax base if other forms of funding cannot be secured.

Human Resource Management

The pandemic has had a profound effect on the labour market. Attracting and retaining qualified team members was already a challenge in light of anticipated retirements and the pandemic put further stress on the situation. Normal turnover brings with it the expected challenges of loss of organizational memory, time and energy to recruit and onboard new team members and change management to ensure the corporation’s culture is not only preserved but grows. The County of Essex has historically been somewhat insulated from high turnover however the Corporation is now seeing significant turnover and growth requiring recruitment and retention of new team members. Staffing challenges are affecting all departments and ensuring business continuity will be an area of focus for all leaders.

Fiscally Responsible Government

In addition to the inflationary and growth pressures noted previously, Essex County continues to be faced with financial pressures from major operational cost increases, own capital requirements (growth and asset replacement related), facility and roadway infrastructure (replacement and expansion), reduction and/or stagnant provincial funding, competing demands for new County-wide initiatives and regional capital requests. In addition, property value reassessment has been deferred until at least 2024, resulting in modest in-year growth only. These pressures will continue to impact Council decisions related to program delivery, priorities and service levels in 2023 and beyond.

The County has established standards of service delivery that effectively manage the demands and the needs of residents while minimizing the effect of increased costs upon the property tax base of its community.

During the 2023 Budget development, Administration has been guided by fundamental principles previously endorsed by Council, namely:

- **The current levels of service being delivered to the community are appropriate. Enhancements are proposed only to maintain service levels and achieve Provincial service level targets.**
- **The Corporation is prepared to maintain its commitment to the community as represented by current discretionary funding levels (i.e. external commitments).**
- **In making decisions with respect to the 2023 Budget, consideration has been given to the consequences of such decisions upon the Corporation’s future financial stability.**

Standard and Poor’s, a leading provider of financial market intelligence and the Corporation’s financial rating agency, recognized the County of Essex’s sound financial practices in the Corporation’s most recent credit rating (November 2022). Standard and Poor’s highlighted the following performance strengths in affirming the County’s credit rating at **AAA** with a **stable** outlook:

- Healthy budgetary performances and liquidity allowing for continued internal funding of the County’s capital plan;
- Disciplined financial management practices and a strong budgeting process;
- Robust after-capital surpluses and pay-as-you-go capital funding strategy to help mitigate debt issuances; and
- Robust liquidity holdings that will continue to bolster the County’s creditworthiness.

It is these principles of sound financial stewardship that have positioned the County ahead of its peers and provided Council with the ability to effectively manage changes to tax rates year over year.

A sound reserve strategy and solid reserve balances are other key components of fiscally responsible government and long-term sustainability. Establishing reserves to manage uncertainties, known asset management lifecycle costs and future capacity opportunities allows the Corporation flexibility and financial strength during periods of fiscal challenge. Attached in Appendix A is a summary of the Corporation’s Reserves highlighting the

projected 2022 year-end balance as well as the impact of changes resulting from the Proposed 2023 Budget.

2023 Budget

Provided in Chart 1, below, is a condensed summary of the proposed 2023 Budget, compared to 2022 Budget and Projected Actuals (see Appendix B for full Budget Summary Comparison). Operations are budgeted to require \$81.1 million while the Corporation’s Capital program is budgeted to require \$43.5 million. The Total County Requirement proposed in the 2023 Budget is \$124.7 million representing a **tax rate increase of 4.76%**.

Chart 1: Budget Summary (excerpt from Appendix B)

Budget Summary	2022 Budget	2022 Projection	2023 Budget
Operating Budget:			
Operating Expenditures	138,209,470	140,997,090	146,242,230
Operating Recoveries	(65,375,000)	(70,896,990)	(72,097,640)
Contrib to (from) Reserves	5,160,200	7,894,570	7,008,700
Net Operating Budget:	77,994,670	77,994,670	81,153,290
Capital Budget:			
Capital Expenditures	60,824,700	35,892,680	89,676,640
Capital Recoveries	(5,913,800)	(9,416,270)	(7,804,900)
Contrib to (from) Reserves	(16,429,400)	12,005,090	(38,305,800)
Net Capital Budget:	38,481,500	38,481,500	43,565,940
Total County Responsibility	116,476,170	116,476,170	124,719,230

For 2023, the County of Essex is challenged by a number of key operating conditions and capital expenditures imposing a year-over-year increase in net levy requirements, on a stand-alone basis. Offsetting these expenditures, in part, are savings achieved through: a net positive change in Current Value Assessment / assessment growth and various departmental cost reductions / containment initiatives proposed throughout the departmental Budgets.

Highlighted in Chart 2 and discussed in the following pages are various external influences or County of Essex specific conditions giving rise to a projected **net tax increase of approximately 4.76%**.

The proposed 2023 Budget was structured to strategically utilize the in-year assessment growth to fund growth related operational and capital cost increases. As Chart 2 illustrates, in-year 2022 growth created a 2.17% tax rate savings to support growth related cost increases in 2023.

Chart 2: Summary of Levy Impacts

Budget 2023 - Summary of Levy Impacts	Levy Impact \$	Tax Impact %
County Levy 2022	116,476,170	(2.17%)
Community Services	22,850	0.02%
Wages and Benefits (net of reserves)		
Occupancy Costs / IT Allocation		
Discretionary Spending Support		
Sun Parlor Home	706,100	0.59%
Wages and Benefits (net of reserves and changes in subsidies)		
Food Costs (net of subsidy)		
Other Operational Costs		
Emergency Medical Services	1,701,400	1.43%
Wages and Benefits (net of changes in funding)		
Fuel, Fleet Repairs & Mtce, Medical Supplies (inflationary)		
Other Operating Costs		
Infrastructure Services	4,971,640	4.17%
Wages and Benefits (includes 1 additional FTE/Mechanic)		
Inflationary Increases for Rehab Program		
Essex County Library	3,400	0.00%
General Government Services	313,680	0.26%
Wages and Benefits (additional staffing net of reserve funding)		
Training and Memberships		
External Commitments	523,990	0.46%
WECHU, MPAC, Invest Windsor-Essex		
Community Safety and Well-Being		
Social Housing – Operating and Capital		
New Windsor Essex Hospital System		
County Levy 2023	124,719,230	4.76%

Community Services

With all Housing with Supports Homes fully operational by the end of 2022, the 2023 proposed budget aims to maintain existing service levels. The cost of transportation for clients requiring transport for medical appointments has increased and the budget provides a modest increase to cover these additional costs. The department required a new printer during 2022 and therefore the 2023 proposed budget also includes an update to reflect the increase in printer lease and IT allocation costs.

Sun Parlor Home

In late 2021, the Province passed Bill 37, Providing More Care, Protecting Seniors and Building More Beds Act. At that time, the province also replaced the Long-Term Care Act, 2007 with the Fixing Long-Term Care Act (FLTCA), 2021. This new Act became effective on April 11, 2022. The new Act sets out the government’s vision of four hours of care per resident by March 31, 2025. The proposed 2023 Budget continues the Home’s phased plan to meet the annual milestones set by the Province. For 2023-2024 this target is 3 hours and 42 minutes per resident per day. To meet this legislated requirement, registered staffing hours are budgeted to increase creating the largest budgetary pressure for the department in 2023.

Also impacting the overall budget are inflationary costs related to food and medical supplies.

Emergency Medical Services

In the latter half of 2022, the enhancement to add 12 full time paramedics, approved in the 2022 Budget, was executed. The proposed 2023 Budget now incorporates the full year cost of this staffing enhancement and represents the primary cause of the department’s year over year increase.

Similar to the operations at the Sun Parlor Home, inflationary effects on medical supplies as well as fuel and fleet repair and maintenance costs round out the levy increase over 2022.

Infrastructure and Planning Services

The pandemic continues to impact the Corporation’s ability to replace its aging fleet in a timely and planned manner. As a result, fleet vehicles are remaining in service longer than scheduled and adding to repair and maintenance costs. Ensuring our fleet are maintained and able to return to active use is critical to meeting our minimum maintenance standards, particularly during the winter control season. The 2023 proposed Budget includes the addition of one full time mechanic/operator who would perform mechanic duties during the winter control season and operator duties for the

balance of the year. The addition of the in-house mechanic/operator is also expected to return modest savings as we reduce the amount paid for contracted services.

The biggest driver of year over year increase in IPS is the cost of the State of Good Repair Program. During 2022, County Council was presented with the tender results of the annual program that required either a reduction in total lane kms or an increase in funding to maintain the program. The decision of Council, with the support of Administration, was to preserve the program and cover the impact of asphalt escalation through a transfer from the Rate Stabilization Reserve. Market rates were monitored for the balance of the year and forecasts into 2023 suggest this escalation pressure will persist. Administration recommends increasing the levy to ensure the upcoming year, as well as future years, are adequately protected against the escalation impact supporting the Corporation’s ability to maintain its planned rehabilitation program. Failing to maintain the Corporation’s road network will have a negative compounding effect on the method of rehabilitation, the cost of repair and the level of service provided to residents and users of our road network.

Library

The 2023 proposed Budget positions the Essex County Library for a return to pre-pandemic service levels. Staff scheduling changes made during 2022 as well as a review of existing budget categories that have been previously underspent will support the Library in maintaining its levy requirement in 2023. The service is anticipated to undertake a strategic planning exercise in 2023 which will help to inform future budgets.

General Government

As the Corporation continues to grow, the capacity within the backbone administrative support departments has been consumed. The 2023 proposed Budget includes additional staff to address a variety of key support services. In the Corporate Management department, the budget proposes the addition of a Records Information Management (RIM) Analyst. This position, along with the RIM Coordinator position, previously approved in 2022, will address the backlog of documentation management and work to support individual departments to maintain sound record keeping practices going forward. In Financial and IT Services, the budget includes the mid-year addition of a full-time IT team member and temporary Co-Op Student to support the growing number of IT related capital projects and changing security threat environment. In Human Resources, the volume of recruitments and day to day administrative tasks require the addition of a full-time Human Resource Assistant.

The addition of team members is also reflected in the increased budgets for training and memberships in each of these departments.

External Commitments

The Corporation’s support of regional initiatives is proposed to continue in the 2023 Budget. Certain legislative requirements are expected to increase and include the County’s share of the Windsor Essex County Health Unit, Municipal Property Assessment Corporation and Social Housing Operations and Capital. The contribution to reserve to establish a fund to support existing housing stock repair and renewal is proposed to increase by \$200,000 over 2022’s contribution. Information provided by City of Windsor administration, detailing a ten year rehabilitation program, suggests the need to increase this annual contribution to smooth funding pressures over the term of the plan.

The proposed Budget also includes increases to discretionary supports including Invest Windsor Essex, Community and Safety Well-Being and most notably the New Windsor Essex Hospital System that will see the annual contribution to reserve increase by \$580,000 in keeping with the previously approved funding model.

Budget Risk Factors

It is important to highlight for Council that there are risk factors inherent with any budget, in most cases beyond the control or discretion of Administration or Council. Economic realities potentially impacting operations include, but are not limited to:

- Unforeseen operational and economic impacts of the prolonged pandemic
- Provincial funding constraints in service areas related to Public Health, EMS, Social Services, Social Housing, Community Services and Long-Term Care
- EMS delivery issues related to hospital emergency off-load delays
- EMS call volume – demographics & response time framework
- Service requirements to care for an increasingly frail and higher level of acuity resident complement at Sun Parlor Home
- Increase in social service caseloads
- Winter control maintenance costs

- Province-wide municipal insurance issues
- Cost of fuel, medical and other supplies necessary across a diverse set of operating programs, specifically in EMS, Sun Parlor Home and Infrastructure & Planning Services
- Further escalation in the cost to construct and maintain linear assets
- Persistent global and domestic inflation
- Operational impact of US Exchange rate
- Decline in Sun Parlor Home Nursing subsidy if the CMI continues to decline in relation to other service providers in the Province
- Interest earned on investments
- Job evaluation for library unionized staff – potential wage rate impacts (pay equity / job equity)
- Premium increases for WSIB and other statutory deductions
- Health & welfare premiums (usage & escalation in service costs)
- Outstanding collective bargaining / arbitration results
- Social Housing – advanced timelines for capital renewal requirements and/or addressing of need to increase housing inventory

County Levy & Tax Rates

Over the past decade the County Levy has increased, due in large part, to address expansion requirements of the County roadway and active transportation infrastructure and more recently, service enhancements to address growth, demographics and systemic health related issues/services. Also impacting annual levy increases is the commitment towards the New Windsor Essex Hospital System. Further, as the County assessment increases relative to the City, a greater shift of costs is transferred from the City to the County for shared programs including: Social Services, Social Housing and Emergency Medical Services.

Although the County Levy has steadily grown over the years, tax rates remain fairly constant, due in large part, to prudent financial management decisions and moderate but stable growth in assessment in the County of Essex over this same period.

The extreme impacts of inflation and their projected persistence at even a moderate degree have made it challenging, if not impossible for Administration to maintain service levels in 2023 without an increase to the levy. Growth in the region is also a significant factor in the year over year levy requirement increase. In the absence of development charges, the cost of growth is born primarily on the Corporation’s tax rate.

The consolidation of the departmental budget estimates produces a residential tax rate for County purposes for 2023, assuming no significant change in tax policy, of **.0052038320**, representing a **4.76%** increase from prior year.

Chart 3 illustrates the change in County tax rates on a per \$100,000 basis.

Chart 3: Residential Tax Rate Comparison, 2022-2023

Year	Assessed Value	Res. Tax Rate	Taxes	Tax Change	%
2022	\$100,000	.0049676134	\$496.76		
2023	\$100,000	.0052038320	\$520.38	\$23.62	4.76%

Financial Implications

Administration respectfully submits that it has, in consultation with all departments, provided Council with a sound business plan for 2023 in the form of a Budget that:

- Reasonably prepares the County to maintain operations during pandemic conditions;
- Addresses the competing demands for service for the coming year;
- Positions the County to manage future capital expansion/remediation;
- Continues to address the County’s future commitment related to the New Windsor Essex Hospital System;
- Is cognizant of the economic realities of our region and the impact these service demands have on the tax rates and ratepayers of Essex County;

- Does not compromise the Corporation’s strong financial foundation for future operations and continued maintenance of stable tax rates for the future.

A significant portion of the County-level expenditures are either mandated services or legislated obligations. Experience has demonstrated that excessive utilization of reserves, reductions in level of service and/or substantial deferral of capital initiatives will expose the Corporation to undue risk and liability while creating significant financial burdens in the future when service reduction impacts and operating/infrastructure gaps will eventually need to be addressed.

Despite the uncontrollable external factors, inflationary pressures and operational considerations discussed above, Administration remains confident that a tax rate increase of 4.76% (inclusive of a minimum 0.5% increase towards hospital funding) is manageable. This business plan focuses on current operating realities and provides the necessary capital allocation for the County’s current requirements. The plan also positions the Corporation favourably to address future capital needs, all without adversely impacting or compromising future operations and/or creating significant future tax rate adjustments.

Consultations

The CAO and all Corporate Department Heads were consulted in the development of the 2023 proposed Budget.

Recommendation

That Essex County Council receive the 2023 Budget package as information and for public deliberation.

Approvals

Respectfully Submitted,

Sandra Zwiers

Sandra Zwiers, MAcc, CPA, CA, Director, Financial Services/Treasurer

Concurred With,

Mike Galloway

Mike Galloway, MBA, CMO, Chief Administrative Officer

Appendix Number	Title
A	Reserve Schedule
B	2023 Budget Summary Comparison