

DATE: April 29, 2019

REPORT TITLE: **APPROACH TO THE DEVELOPMENT OF THE 2020 BUDGET**

FROM: Stephen VanOfwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That the development of the 2020 budget be guided by a 2.9 per cent net tax levy target, as outlined in Appendix I of the report of the Commissioner of Finance and Chief Financial Officer titled “Approach to the Development of the 2020 Budget”;

And further, that staff provide a summary report on the impact and risks of the Provincial funding announcements on Regional services;

And further, that staff work with the external agencies to meet the proposed 2020 budget targets as outlined in the subject report;

And further, that the timelines for the 2020 Budget deliberations as outlined in Appendix II of the subject report be approved;

And further, that the external agencies be requested to report to Regional Council in June 2019 on risks to service levels associated with achieving the budget target, and to meet the proposed timelines for 2020 budget.

REPORT HIGHLIGHTS

- A net tax levy increase of 4.5 per cent was forecast for 2020 during the 2019 Budget:
 - 2.9 per cent to maintain existing service levels
 - 0.6 per cent for additional community priorities and
 - 1.0 per cent infrastructure levy
- Peel’s long term financial planning strategy recommends that tax increases be in line with inflation to demonstrate respect for the taxpayer, therefore a target of 2.9 per cent is recommended:
 - 1.3 per cent to maintain existing service levels
 - 0.6 per cent for additional community priorities and
 - 1.0 per cent infrastructure levy
- Managing the budget target will require participation of all services funded by the net tax levy: Regionally Controlled Services (56 per cent) and Regionally Financed External Agencies (44 per cent).
- A report will be provided in September 2019 summarizing the impact of the Provincial Budget announcement on Regional Service funding, service levels, and service delivery

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models.

- The 2020 Budget, as a budget as outlined in the *Municipal Act*, will be deliberated starting November 28, 2019.
- Staff will provide Council with the budget information three weeks prior to the deliberation of the 2020 Budget.
- External agencies (Peel Regional Police, Ontario Provincial Police, Credit Valley Conservation, Toronto and Region Conservation Authority and Conservation Halton) are required to obtain approval from their respective boards.

DISCUSSION**1. Background**

The Region of Peel's Long Term Financial Planning Strategy provides a long term perspective to guide decision making in support of the Region's overall financial condition. The Strategy demonstrates the required balance between financial sustainability, financial vulnerability and financial flexibility. In the Strategy, the financial principle of "Respect for the Taxpayer" is measured by budget tax increases in line with inflation which have historically been in the range of one to three per cent per Bank of Canada.

The annual budget provides the resources to enable the policy decisions Council makes throughout the year. The focus of the 2020 Budget will be to enable the priorities identified by Council through its vision of a Community for Life.

On January 31, 2019 when the 2019 Budget was approved, a budget target for 2020 was not recommended to Council as in previous years due to the risk and impact of provincial funding changes.

2. Impact of Provincial Budget on Funding

The Region of Peel is required to provide many cost shared programs mandated by the Province. On April 11, 2019, the Province released its 2019 Budget with additional details in the weeks that followed. While the Provincial Budget spoke to some increases in specific areas of Affordable Housing and Long Term Care, there were significant funding reductions for Public Health and Child Care programs.

Subsequent to the Provincial Budget, a number of announcements have been made including adjustments to funding models for both 100 per cent funded programs and cost shared programs. In addition, reductions in the number of Paramedic Service and Public Health units have been announced. At this point, there is insufficient information to appropriately assess the financial impact.

What is known at this point is that there will be decreased funding for Public Health, Child Care, Social Assistance and Employment. Public Health, for example, will transition from its current cost sharing formula where the Province pays 75 per cent of eligible costs to 70 per cent starting retroactively to April 1, 2019 and then to 60 per cent on April 1, 2021. There has been no information released yet about caps to funding which would significantly impact Peel, as Peel currently funds 37 per cent of the program versus its current mandatory share of 25 per cent.

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Overall, these changes will significantly impact service levels and service delivery models for programs such as Child Care, Affordable Housing, Long Term Care, Public Health, and Paramedic Services.

The presentation to Council accompanying this report on May 9th will include updated information on the impact of these funding changes that were not known at the time of the writing of this report.

3. Proposed Direction

A best practice, as articulated by the Municipal Finance Officers Association, is to obtain budget approval prior to the start of the fiscal year. Under the proposed timeline (Appendix II), the first date for budget deliberation is November 28, 2019 where Council will be presented the 2020 Budget Overview by the Chief Financial Officer followed by the service budget presentations for Regionally Controlled services.

The external agencies (Peel Regional Police, Ontario Provincial Police, Credit Valley Conservation, Toronto and Region Conservation, and Conservation Halton) will present their respective budgets to Regional Council on December 5, 2019. December 12 and 19 are held as budget meeting dates for further deliberations, if required.

Consistent with the Long Term Financial Planning Strategy, Regional Council direction is required to develop the 2020 Budget which reflects Council's financial principle of "Respect for the Taxpayer". As seen in the table below, the net tax levy forecasted in 2019 budget for 2020 was 4.5 per cent which included 2.9 per cent to maintain existing service levels, 0.6 per cent for community priorities and 1.0 per cent for the infrastructure levy.

	2020 Forecast
Base – Maintain Existing Service levels	2.9%
Community Priorities	0.6%
Infrastructure Levy	1.0%
Total Net Tax Levy Increase	4.5%

The 2.9 per cent forecast to maintain existing service levels is at the upper end of the Bank of Canada inflation target range of 1 to 3 per cent. The forecasts were developed using global and service specific assumptions, such as service demand, labour costs, Consumer Price Index (CPI) on contracts, operating impact of new capital, provincial funding increases for inflation and service demand, and previous Council approved tax strategies.

As an infrastructure intensive organization, increases to the infrastructure levy are influenced by rising costs for construction. The inflation indices for capital investments are generally higher than CPI.

The 0.6 per cent forecast for community priorities reflect both direction from Council during deliberations of the 2019 Budget, that a \$3 million grant be placed in the 2020 Regional Budget proposal for the Malton Community Hub, and previous direction on other community priorities such as Butterfly Model, Waste Diversion, and Early ON expansion.

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The Region is continually implementing process improvements to deliver operational efficiencies to ensure the best value for money for tax and utility rate payers. Managing to a lower budget target will require participation of all services funded by the net tax levy. Regionally Controlled Services comprise 56 per cent and External Agencies 44 per cent of the net tax levy.

As such, the following is proposed:

- a) The development of the 2020 Budget be guided by a 2.9 per cent net tax levy target, consisting of 1.3 per cent to maintain existing service levels, a 1.0 per cent infrastructure levy and 0.6 per cent to address community priorities (see Appendix I). The proposed approach ensures the long term sustainability of Regional services and demonstrates respect for the taxpayer.
- b) For Toronto and Region Conservation Authority (TRCA), Peel's staff dictate to TRCA its available operating funding envelope, which is consistent practice with TRCA's other partner municipalities – TRCA budgets accordingly based on the determined funding.

Due to growth rate differences from TRCA's partner municipalities, this funding approximates the Current Value Assessment (CVA) formula that TRCA is expected to follow. Municipal funding provided in excess of the ratio is delineated as 'non-CVA' levy, in an effort to be open and transparent with TRCA's partner municipalities.

TRCA's board has initiated discussions with the Province and municipal stakeholders on how to address the growing non-CVA component. The results of these discussions will be included as part of the summary report to Council on the impact of Provincial announcements on Peel's services scheduled for September 2019.

- c) That Peel Regional Police, Credit Valley Conservation, and Toronto and Region Conservation report to Regional Council in June 2019, on the implications to service outcomes associated with achieving the 2020 Budget targets. The ability to reduce or manage expenditures in line with the target may present risks to service levels which will require Council's guidance.

Ontario Provincial Police and Conservation Halton make up a very small proportion of the Region's net tax levy and as such will be asked to present their service implications at the time they deliver their budget to Regional Council.

- d) Staff will provide a report to Council summarizing the impact of the Provincial announcements prior to the 2020 Budget deliberations including risks and options to adjust service levels in order to achieve the budget target.
- e) Decisions made in developing the 2020 Budget must take into account tax rate implications on future years.

4. Utility Rate Supported Budget

The 2019 budget included a forecast utility rate increase of 7.8 per cent for 2020. Because the water and wastewater services are infrastructure intensive, a 5 per cent infrastructure levy is required to maintain the state of good repair of its \$24 billion in assets. The remaining 2.8 per cent is required to maintain existing service levels, and includes inflation. Staff will

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develop the budget, identifying opportunities to manage costs, and will be brought back for further Council consideration as part of the regular budget review process. This increase would still leave utility rates in Peel well below those of other municipalities in the Greater Toronto Area.

CONCLUSION

The proposed approach to developing the 2020 Budget is consistent with the Long Term Financial Planning Strategy principle of Respect for the Taxpayer as measured by tax increases in line with inflation, and the proposed timelines are in line with industry best practices. Council guidance on the 2020 Budget target will assist service planning and inform the priority setting from the update of the Strategic Plan outcomes, community risks and the impacts of the Provincial Budget. Regional staff will work with external agencies to facilitate Council's direction for a responsible and sustainable 2020 Budget.

Approved for Submission:



S. VanOfwegen, Commissioner of Finance, Chief
Financial Officer and Acting Chief Administrative
Officer

APPENDICES

Appendix I - Budget Target
Appendix II - Budget Timelines

For further information regarding this report, please contact Norman Lum at extension 3567 or via email at Norman.Lum@peelregion.ca.

Authored By: Norman Lum

**APPENDIX I
APPROACH TO THE DEVELOPMENT OF THE 2020 BUDGET**

PROPOSED TARGETS		
Tax Supported Services	2020 Forecast Increase (%)	2020 Recommended Target (%)
Toronto and Region Conservation*	2.60	2.60
Credit Valley Conservation *	7.20	3.40
Conservation Halton	4.50	3.40
Peel Regional Police	5.50	3.40
Ontario Provincial Police	3.00	3.00
Regionally Controlled - Base**	4.40	2.40
Regionally Controlled - Infrastructure Levy	1.00	1.00
Base Increase sub-total	5.00	3.40
Assessment Growth	-1.10	-1.10
Base Increase	3.90	2.30
Additional Community Priorities recommended for 2020	0.60	0.60
Net Tax Levy	4.50	2.90

**Excludes one time costs*

*** Excludes Additional Community Priorities recommended for 2020*

**APPENDIX II
APPROACH TO THE DEVELOPMENT OF THE 2020 BUDGET**

PROPOSED TIMELINES	
Activity	Date
Update on the Status of the Long Term Financial Planning Strategy	April 25
Approach to the Development of the 2020 Budget – Council Report	May 9
External Agencies Presentations on Progress Report and Future Outlook	June 13 and 27
Options and Considerations for the 2020 Budget	September
Electronic and Hard Copy of 2020 Budget Documentation and Presentations to Councillors	November 7
The 2019 Infrastructure Status and Outlook – Council Report	November 14
Continuous Improvement Update – Council Report	November 14
Overview and Update on the Status of Reserves – Council Report	November 14
Notice to the Public	November 14
Budget Document available on Website	November 14
2020 Budget Presentations	
Regional Budget Corporate Overview	November 28
Regional Services Budget Presentations	November 28
Police Service Budget Presentations	December 5
Conservation Authorities Service Budget Presentations	December 5
Additional Budget deliberation	December 12
Additional Budget deliberation	December 19