
DATE: April 18, 2019

REPORT TITLE: **UPDATE OF THE LONG TERM FINANCIAL PLANNING STRATEGY**

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

RECOMMENDATION

That the updated Long Term Financial Planning Strategy, Financial Condition Scorecard and Financial Management By-law as outlined in the report of the Commissioner of Finance and Chief Financial Officer, titled “Update of the Long Term Financial Planning Strategy”, be approved.

REPORT HIGHLIGHTS

- The Long Term Financial Planning Strategy (the “Strategy”) was approved in 2013 to ensure the long term financial sustainability of Regional services with a refresh to be conducted for each term of Council.
- An independent assessment conducted by Ernst & Young determined that;
 - Over the past 5 years, there has been an overall improvement in Peel’s fiscal health demonstrating a financially strong Region that has been able to achieve the objectives of its financial strategy.
 - Through actions guided by the financial condition scorecard and application of the Strategy, Peel has maintained its Triple “A” credit rating through an evolving economy and a period of rapid population growth.
 - Compared to peer jurisdictions around Canada, Peel’s Long Term Financial Planning Strategy is more mature and comprehensive.
- Minor updates to the Strategy and Financial Condition Scorecard are recommended to monitor key risk areas such as the changing nature of employment and reliance on Provincial funding.
- Implementation of the actions guided by the Long Term Financial Planning Strategy and Financial Condition Score will help Peel maintain its high credit rating.
- Peel is currently assessed as AAA/Aaa by Standard & Poor’s Global Ratings and Moody’s Investors Service, making Peel one of only four municipalities to attain that rating from two credit rating agencies.

DISCUSSION

1. Background

In April 2013, Regional Council approved the Long Term Financial Planning Strategy (the “Strategy”) to address the increasing financial pressure that Peel's growing and evolving community is putting on its services and programs. The Strategy applies a disciplined, comprehensive and integrated approach that identifies and manages the risks to the Region's long term financial sustainability and credit rating. To implement the Strategy, a Financial Management By-law was established to govern all financial policies and by-laws including the Development Charges, Procurement and User Fee By-laws, the Reserve Management, Budget, Asset Management, Investment, Debt, and Energy Hedging policies; and Cash Management Strategy.

To assess the Region's financial health, an annual financial condition scorecard was developed that utilizes financial performance indicators in three key areas; financial sustainability, financial vulnerability and financial flexibility.

To ensure the Long Term Financial Planning Strategy remains relevant and reflects priorities, Council directed that the Strategy (see Appendix I) be refreshed with each term of Council.

2. Assessing the Long Term Financial Planning Strategy

a) The Strategy has positively impacted financial health

After five years (2013 – 2017) of having the Strategy in place, an independent assessment by Ernst & Young concluded (see Appendix II) that it has helped to improve Peel's overall financial condition. Below are highlights of the assessment:

- There has been an overall improvement in financial health as measured by the existing Strategy, demonstrating a fiscally healthy Region that has been able to achieve the stated objectives of its financial strategy
- Through its actions as a result of monitoring the Financial Condition Scorecard and applying the Strategy over the past five years, Peel has been able to maintain its AAA/Aaa by Standard & Poor's Global Ratings and Moody's Investors Service, even through a rapidly growing population an evolving economy.
- Compared to peer jurisdictions around Canada, Peel's Long Term Financial Planning Strategy is more mature and comprehensive

b) Financial Indicators show improvements and some continuing risks

Legend: On Track ■ On Track But Declining Trend ■ Off Track ■

	Indicator	2013	2014	2015	2016	2017
Sustainability	AAA Rating	AAA	AAA	AAA	AAA	AAA
	Tax rate in line with inflation	1.3%	1.5%	1.9%	1.9%	2.3%
	100% Adequate Capital Reserves (Tax)	1% infra levy approved	1% infra levy approved	1% infra levy approved	1% infra levy approved	1% infra levy approved
	100% Adequate Capital Reserves (Utility)	6% infra levy approved	7% infra levy approved	3.5% infra levy approved	3.5% infra levy approved	3.5% infra levy approved
	Focus GTA Survey Value for Tax	N/A	N/A	77% residents satisfied	75% residents satisfied	75% residents satisfied
Vulnerability	Less than 20% DC rate increase	Less than 20%	20%	2.9%	Less than 20%	5.4%
	< 50% of Budget funded by property tax	48%	46%	46%	45%	44%
	35%-45% Non Residential Tax Revenue	38.3%	38.3%	37.6%	37.2%	36.7%
	100% Compliance With Investment Policy	Compliant	Compliant	Compliant	Compliant	Compliant
Flexibility	5% - 10% Rate Stabilization Reserve (Tax)	15.8%	15.5%	15%	12%	11.5%
	Cash to fund 12 month debt payments	Yes	Yes	Yes	Yes	Yes
	5% - 10% Rate Stabilization Reserve (Utility)	7%	3.6%	3.1%	7%	7.3%
	Annual debt payments <25% own source revenue*	7.6%	9.1%	8.3%	8.1%	8.9%

* Reflects the impact of actual debt issuance.

To determine the effectiveness of the Strategy, Peel's financial health was also assessed against its existing Financial Condition Scorecard which includes financial indicators that are aligned to different risk areas. As seen in the table above, 10 of the 13 financial indicators demonstrate that Peel's financial health has improved since the Council implemented the Strategy in 2013. The remaining three indicators highlight continuing risk around the adequacy of capital reserves for both tax supported and utility rate supported services and the declining proportion of property taxes from the non-residential sector.

3. Future Trends and Risks to Financial Health

While the Strategy has positively impacted Peel's overall financial health over the past five years with most indicators on track, the assessment highlighted some key risks to Peel's long term financial condition.

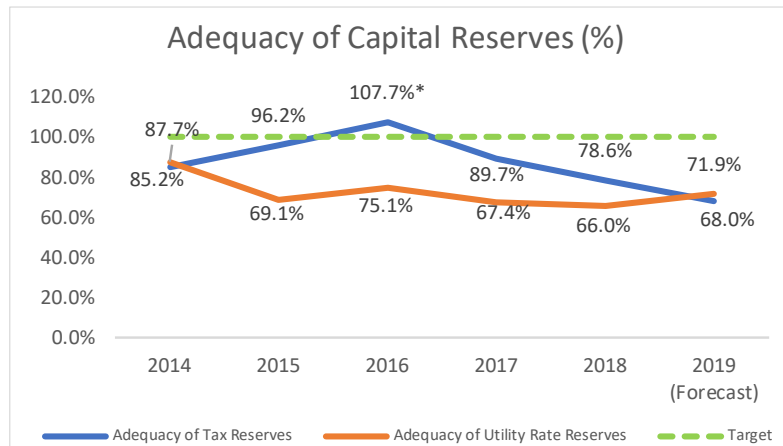
a) Sustainability

i) Aging Infrastructure

The overall state of good repair of Peel's aging infrastructure is currently "Good" due to Council's commitment to its corporate asset management program. However, capital requirements critical for service delivery continue to increase. This has largely been driven by two factors; new infrastructure added to address growth and Council priorities, as well as updated condition assessments on existing assets such as those within the Wastewater service. To ensure that Peel's infrastructure portfolio is maintained, assessed and supported, it is recommended that Peel continue to mature its current asset management program to an over-arching enterprise asset management strategy. In addition, to better reflect the risk of its aging infrastructure, an indicator from Peel's Infrastructure Status and Outlook Report was added to the Financial Condition Scorecard.

ii) Reserve Adequacy

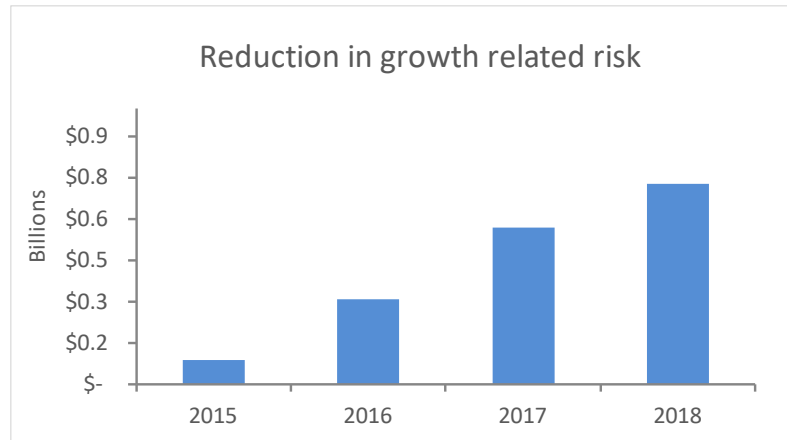
Over the past five years, Council has approved increases to the annual contributions to both the tax supported and utility rate supported capital reserves. However, the gap between the reserves and the forecasted infrastructure requirements continues to experience a funding shortfall. This has largely been driven by two factors; increasing infrastructure needs for Council priorities such as Affordable Housing and Waste Diversion and updated condition assessments for assets typically with life cycles greater than 20 years. To ensure the sustainability of Peel’s capital plan, an adjustment to extend the reserve adequacy assessment period from ten to twenty years for both the tax and utility rate supported programs has been made.



b) Vulnerability

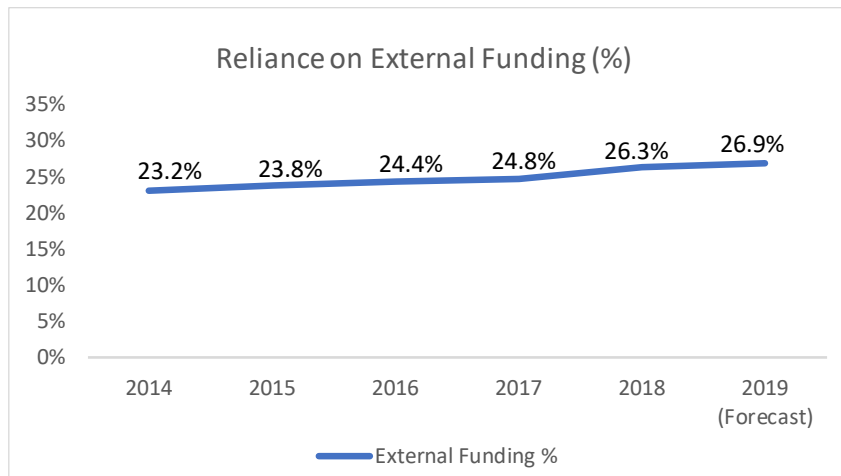
i) Managing Growth

Peel’s Growth Management Program, is working closely with its stakeholders to improve the alignment of the capital expenditures and DC revenue to the growth plan. This led to a total deferred debt and expenditure reductions totaling \$728 million compared to the 2015 DC Background study. While Peel’s population continues to grow, the employment numbers forecast by the Province are not being realized, largely driven by the changing nature of employment. To ensure that there is continued focus on growth management and development charges, an indicator that monitors the risk associated with debt financing growth has been added to the Financial Condition Scorecard.



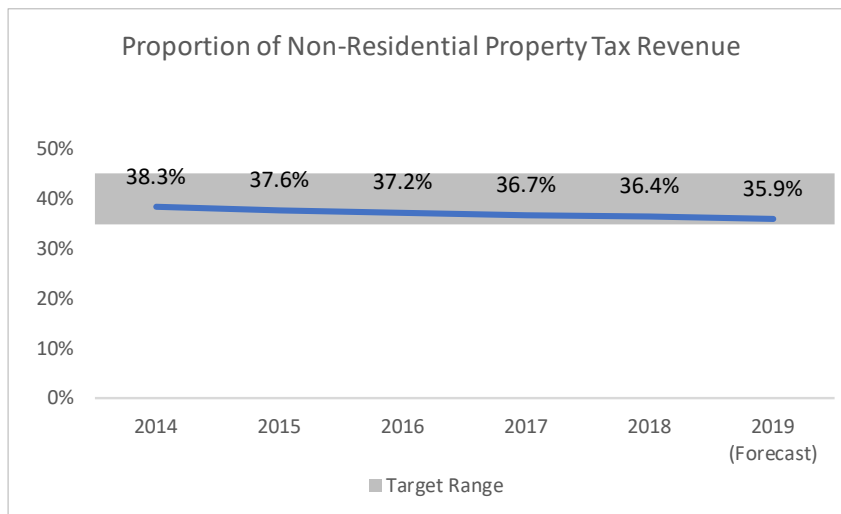
ii) External Funding Risk

Peel is mandated to deliver many Provincial programs such as Child Care, Housing, Ontario Works, Paramedic Services and Public Health. Funding related to these and other programs have increased significantly over the past five years from \$419.5 million in 2013 to \$570.0 million in 2017, an increase of 36 per cent. This increased funding has supported Peel in its provincially legislated obligations. However, with changes in government, there is increased risk that funding to Peel will be constrained despite population growth and existing shortfalls in current funding levels. To ensure Peel's provincial funding risk is mitigated, an indicator that focuses on external funding reliance has been added to the Financial Condition Scorecard.



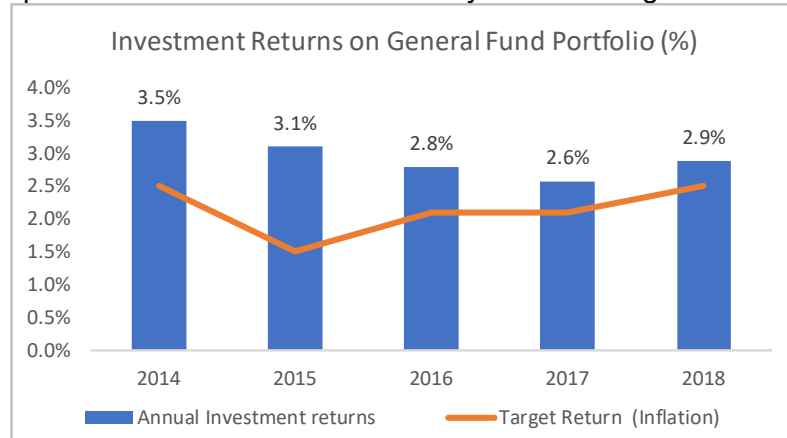
iii) Declining Proportion of Non-residential Revenue

Over the past five years, the proportion of tax revenue from the non-residential sector has steadily declined from 38.3 per cent to 36.4 per cent. This indicates that the tax burden is shifting from the non-residential sector to the residential sector. If this trend continues, affordability of services will become increasingly challenging for Peel residents.



iv) Maximizing Investment Returns

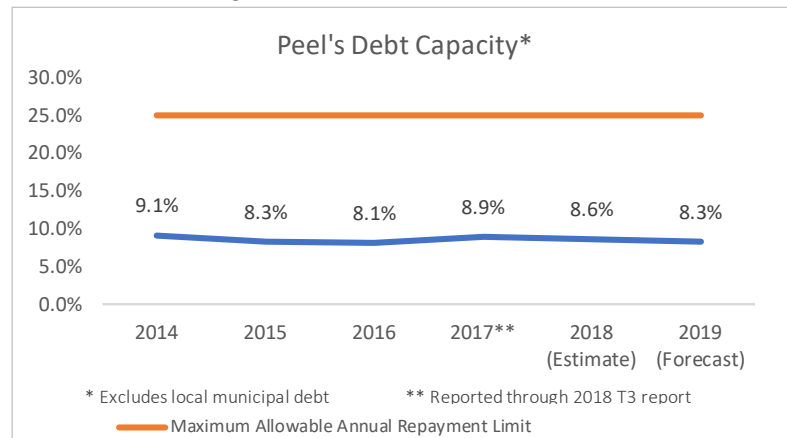
To help offset the pressures and risks from external revenue and to preserve the value of existing reserves, it is critical to manage cash effectively. In May 2017, an updated Cash Management Strategy was approved to optimize returns on investment. To monitor the returns, a new indicator on Investment Returns has been added. This indicator will help to drive and measure the performance of Peel’s investment portfolio which helps to preserve the value of Peel’s money over the long run.



c) Flexibility

i) Inter-Generational Equity

As Peel’s population continues to grow and age, there is an increase in both the service demands and complexity from an evolving community. Many of Peel’s services are infrastructure intensive requiring significant assets for service delivery such as an anaerobic digestion facility for waste diversion, stations for paramedic services or additional affordable housing for low income residents. To finance these and other Council priorities, it may require leveraging additional debt. The use of debt for new services also enables the costs of these new services to be paid by the generation that benefit from them. To ensure that Peel retains sufficient flexibility to utilize debt, a new indicator measuring debt capacity has been added. In addition, an indicator measuring overall liquidity has been added to monitor Peel’s high credit rating and lower borrowing costs associated with that rating.



4. Actions to address risks

Based on the results of the 2019 Financial Condition Scorecard (Appendix III), a number of actions, grouped under three key themes, have been identified for implementation.

i) Dealing with service level pressures

As Peel's population continues to grow and age, there will be increased service level pressures with many services requiring infrastructure for service delivery. There will also be increased pressure for additional infrastructure needs due to regulatory changes, and other evolving community needs including increased affordable housing. In addition, Peel's infrastructure, valued at almost \$28 billion, continues to age amplifying the risk to service delivery.

Therefore, to better manage the risk of service level pressures, staff is undertaking a number of activities:

- a) Implement the Asset Management Strategy to be ISO55000
- b) Develop a Capital Financing Strategy to better use funding resources such as capital reserves, debt, development charges and external funding
- c) Update the Debt Policy to ensure flexibility for capital priorities

ii) Decline in Non-Residential Tax Revenue

As presented to Council on March 28, 2019 in the report titled, "The Changing nature of Employment and Implications for Fiscal Health and Municipal Sustainability", Peel's economic environment has undergone a significant change since the last economic downturn. There has been a shift from manufacturing or goods production to the service sector. This change ultimately reduces the total revenue received from the non-residential sector as service based businesses generally have smaller property footprints.

As mentioned earlier, the proportion of non-residential property tax has been declining resulting in a greater share of the tax burden falling on the residential sector. The Mowat Centre, who conducted the research study to better understand the impact of these changes on municipalities and the risks to financial sustainability, concluded that the proportion of residential income spent on property tax is likely to rise; and the fiscal health and sustainability of municipalities are at risk.

Therefore, to mitigate the risk of the declining proportion of non-residential tax revenue and impact of the changing nature of employment, staff has the Council approved recommendation to:

- a) Work with the Association of Municipalities of Ontario (AMO) and the Federation of Canadian Municipalities (FCM) to educate senior levels of government and develop an advocacy strategy

iii) Increased Reliance on External Funding

The proportion of the annual operating budget funded by property tax has slowly declined largely driven by increases in the level of external funding Peel has been receiving. As presented in the 2019 Budget, 27 per cent or \$670 million of the Region's

operating expenditures is funded by external funding. This included an assumption for a provincial funding increase of \$11.85 million to address inflation and service demand growth in the provincial mandated programs. In addition, there is additional risk driven by programs mandated or downloaded to Peel for which appropriate funding levels are currently not provided, such as Social Housing, the one year delay in Paramedic funding or the underfunding of the Public Health programs. In order to minimize vulnerability, Peel must mitigate the risk of service disruptions or service level reductions from funding freezes or insufficient funding.

Therefore, to mitigate the risk associated with external funding, staff is undertaking the activity to:

- a) Develop an advocacy strategy to obtain/retain fair share funding from the Province and monitor the levels of external funding to ensure there is sufficient flexibility in the reserves to minimize significant service disruptions.

CONCLUSION

The Long Term Financial Planning Strategy has helped Peel remain financially healthy since its adoption in 2013. The updated Strategy and 2019 Financial Condition Scorecard include a number of actions that will help Peel remain financially sustainable over the long term and retain its current Triple "A" credit rating from Moody's and S & P, one of only four municipalities to attain that rating from two credit rating agencies.



Stephen VanOfwegen, Commissioner of Finance and Chief Financial Officer

Approved for Submission:



J. Sheehy, Acting Chief Administrative Officer

APPENDICES

- Appendix I – Region of Peel Long Term Financial Planning Strategy
- Appendix II – Ernst & Young Fiscal Health Assessment
- Appendix III – 2019 Financial Scorecard

For further information regarding this report, please contact Norman Lum, Director, Business & Financial Planning, 905-791-7800 ext. 3567 or email Norman.Lum@peelregion.ca.



Regional Municipality of Peel

Long Term Financial Planning Strategy

2019



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Message from the Commissioner of Finance and Chief Financial Officer

The Region of Peel provides critical services to its residents with a strategic goal of building a Community for Life. In 2013, we adopted our first Long Term Financial Planning Strategy (the "Strategy") to ensure the long-term financial sustainability of these services to best serve the residents and businesses in Peel. Since then, the Strategy has guided our fiscally responsible and evidence-driven decision making. We improved service excellence and maintained our Triple-A credit rating, all these years as one of only twelve municipalities in Canada to achieve that benchmark.

In the past five years, Peel Region has evolved and grown considerably: almost 100,000 more people live in Peel, with a total population of 1,481,400. In addition, 173,000 businesses operate in the region and the changing economy is impacting the nature of employment and how land is used. These trends are expected to continue going forward.

To withstand the increased financial pressure of these changes on services and programs, we have refreshed our Long Term Financial Planning Strategy to ensure Peel remains financially sustainable and is able to manage and mitigate risks impacting our fiscal health.

As a financial lens to be applied to planning, the Strategy supports Term of Council priorities, the Region's strategic objectives, and critical initiatives across the Region.

The updated strategy will continue guiding our decision making and further strengthen our ability to deliver value to the taxpayers of Peel today and into the future.



Stephen VanOfwegen
Commissioner of Finance, CFO



Background

The Region of Peel (the “Region”) is recognized as a leader among Canadian municipalities in delivering effective and efficient services and is the only municipality to achieve the Platinum Excellence, Innovation and Wellness Award from Excellence Canada for outstanding end-to-end achievements of its systems of management and public service delivery. Through its “Community for Life” vision, the Region has made a commitment to work with its residents and businesses to create a healthy, safe, and connected community. The Region provides community and infrastructure services to almost 1.5 million people and over 173,000 businesses in Brampton, Caledon and Mississauga. Peel is made up of three diverse local municipalities and many more cultural, economic and social communities. The Region works closely with its local municipal partners and various levels of government to ensure services are delivered effectively.

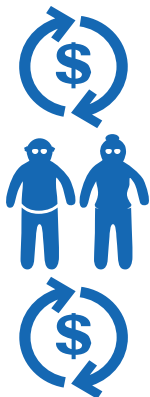
The Long Term Financial Planning Strategy provides a consistent lens to help evaluate the long-term financial impact of proposed changes to services and service levels to the community.



Introduction to the Long Term Financial Planning Strategy

Since 2013, the Region of Peel has been guiding their policy decisions based on fundamentals set out in its Long Term Financial Planning Strategy. The purpose of the Strategy is to ensure the long-term financial sustainability of Regional services and maintain the Region of Peel's high-quality credit rating.

Over the past seven years, Peel Region has changed substantially, as indicated by six key macro trends:



- Rapidly growing and aging population (The Region's population is expected to grow at the rate of 20,000 per year)
- Aging infrastructure currently valued at almost \$28 billion and growing
- Adverse effects of climate change and changing weather patterns
- Changing economy that impacts employment
- Constantly evolving legislation and regulatory environment
- Rapidly changing technology which impacts how the Region connects with residents and delivers services

These challenges are poised to place increased financial pressures on the Region to continue delivering its targeted outcomes and maintain desired service levels. With this in mind, an independent assessment was undertaken in 2018 to review the change in the Region's financial health, and review its 2013 Long Term Financial Planning Strategy. The review included the fundamental principles of the Strategy, and its performance and application, to ensure that it reflects the current and foreseeable economic realities of the Region.

As an outcome of the review process, it was noted that the Strategy and its underlying pillars and principles have served the Region well over the years. Amendments have been made to align the Strategy with the current Strategic Plan, the changing trends affecting the Region, and the changing needs of its residents and businesses.

In order to help Peel maintain its excellent financial health, updates to the Strategy considered the current challenges faced by the Region and lessons learned from impacted stakeholders. The updates reinforce a proactive approach to financial management, increasing the understanding of the impact of decisions made by the Region and have the foresight to prepare for the impacts of external influences, so that planning for programs, services and financial needs can be done accordingly.

LTFPS Purpose and Outcome

The Region of Peel has consistently managed its finances well, which has been reflected in its consistently high credit ratings. The Strategy is intended to serve as a guide for the Region's services in developing financial plans, budgets, and service strategies that optimally balance target outcomes with fiscal prudence. The Strategy is a financial lens that is applied in undertaking a disciplined approach to managing risk and preparing for the future.



Purpose

To guide fiscally responsible, evidence-driven decision making and ensure long-term financial sustainability of Regional service outcomes to best serve the residents and businesses in Peel.



Outcome

Regional services are financially sustainable.



Pillars of the Strategy

The Long Term Financial Planning Strategy is founded on balancing the following three pillars.

Each of the pillars is defined below:



1. Financial Sustainability:

The Region's ability to provide and maintain planned service levels and infrastructure assets without unplanned increases in rates or disruptive cuts to services.



2. Financial Vulnerability:

The degree to which the Region is dependent on external funding sources that it cannot control; it is the level of risk that could impact the ability to meet existing financial obligations and commitments, including the delivery of Regional services.

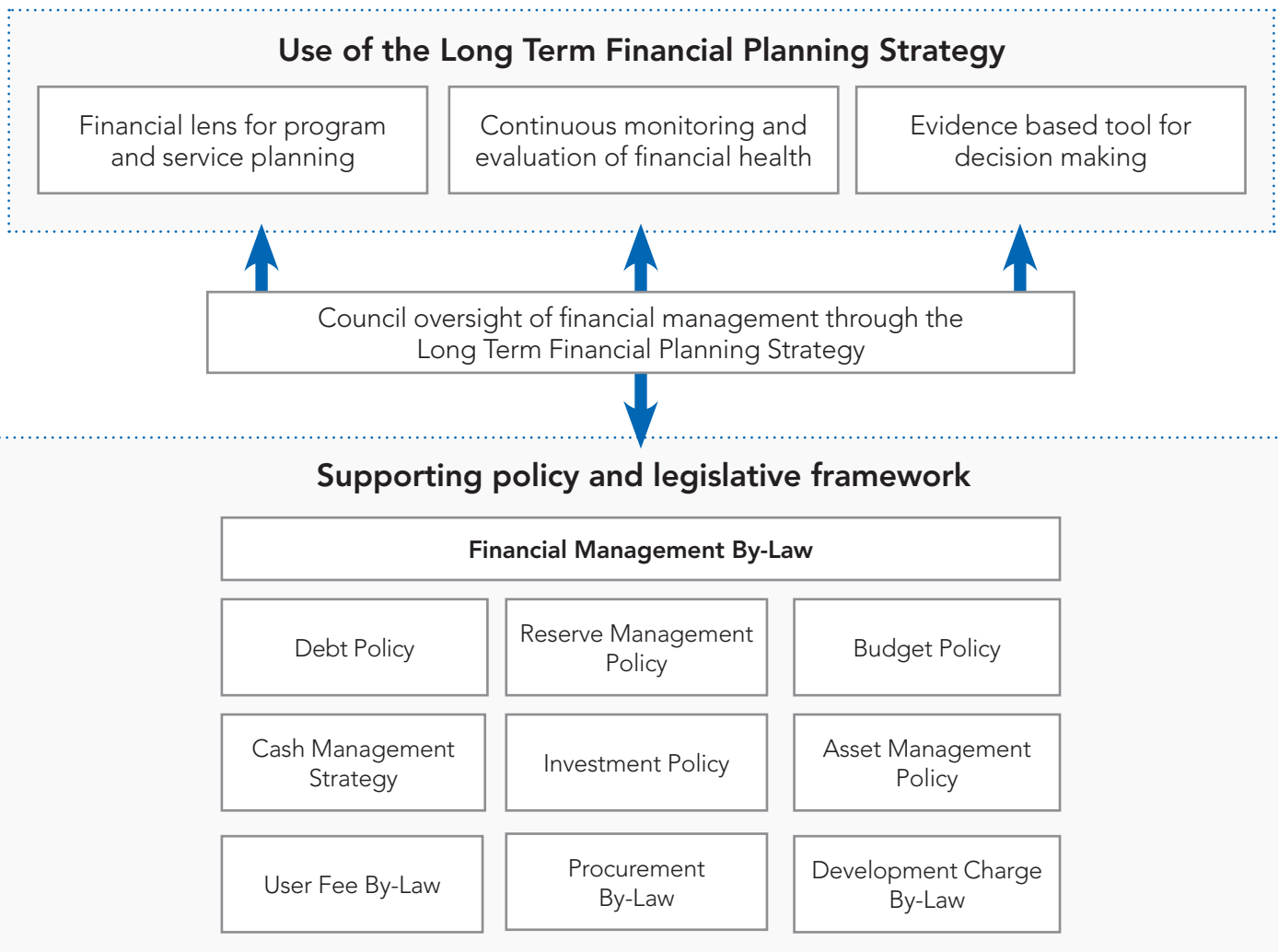


3. Financial Flexibility:

The Region's ability to change either debt levels or taxes and utility rates to meet financial obligations and ensure intergenerational equity.

How the Strategy Guides the Financial Policy Framework

The Strategy guides the Region's financial by-laws and policies to ensure a holistic and integrated fiscal management approach. The table below provides an overview of the framework.



The Strategy, policies, by-laws and financial tools will continue to enhance Regional Council's ability to make decisions on policies, services and service levels by:

- Providing the long-term financial impact of these decisions;
- Identifying emerging risks and trends earlier; and
- Understanding how and when decisions and/or events may change the Region's financial condition

Financial Principles of the Strategy

The Strategy is built on nine financial principles, grouped under one of the three financial pillars. Each principle governs a specific financial aspect and the principles collectively address how the Region manages its fiscal health. No attempt should be made to prioritize the principles, but instead, they should be used in an integrated fashion to achieve a balance amongst the financial pillars. These principles guide Regional Council and staff when making decisions related to service and program planning. Long-term, short-term, in-year planning and ad-hoc decisions will be evaluated on financial terms to ensure adherence to these principles. The following is a detailed description of each financial principle:



Financial Sustainability

Respect the tax payer – Achieve reasonable and responsible tax rates to ensure that Regional Council's highest priority services are maintained. The Region will strive to deliver its desired service outcomes without placing undue financial pressures on its tax payers.

Ensure the Capital Plan is sustainable – Capital reserves and reserve funds are funded to levels to enable the Capital Plan. Capital expenditures should be continually reviewed in the context of affordability, and the operating impact of capital should be sustainable and affordable.

Manage assets – Replace or maintain assets over their lifecycle in a timely manner to enable service delivery.

Deliver value for money – Continuously find efficiency and quality improvements to manage and deliver services.



Financial Vulnerability

Users pay where appropriate – Ensure that the users of services pay for the services, and balance growth-related investments with revenue to achieve intergenerational equity where possible.

Work with local municipalities to manage growth and support economic viability of the community – Work together with local municipalities to ensure that the Region continues to be a desirable area to live, work, and play.

Make responsible investments – Maintain an investment portfolio that balances the safety of principal and maintenance of liquidity while striving to obtain returns that benefit residents and businesses.



Financial Flexibility

Mitigate significant fluctuations in tax and utility rates – Implement ways to smooth and maintain tax and utility rates to provide financially stable and predictable environments for residents and businesses.

Borrow when appropriate for capital infrastructure – Maintain an affordable level of debt required to achieve desired service levels while minimizing the impact of borrowing to the tax payer and ensuring intergenerational equity.

Implementation and Integration of the Strategy

The Region of Peel employs an Integrated Planning Framework for the development of long and short terms plans. As illustrated, the framework covers Strategic Planning (20-year Regional Strategic Plan, Term of Council Priorities), Service Planning (Service Plans or Master Plans with a 5- to 10-year horizon), and Operational Planning (1- to 2-year plans).

The Strategy will be used to inform all plans, and policies, developed by the Region so that decisions include a financial impact evaluation. This will ensure that, to the extent possible, only plans that adhere to the Strategy's principles will be considered.



The Region of Peel has also adopted new policies and strategies across various domains since the implementation of the Long Term Financial Planning Strategy, examples are:

- In 2013, Peel established the Growth Management Program to reduce the risk to the financial sustainability of the Development Charge Program. As identified in the Term of Council priorities in 2013, the objective of this program is to manage Peel's financial risk associated with servicing growth
- In 2017, the Corporate Social Responsibility Strategy was developed, which put additional emphasis on environmental sustainability. The Term of Council priorities includes a commitment to "Adapt to and Mitigate the Effects of Climate Change" as improving resiliency to climate change has increasingly become more important to Peel
- In 2017, the Cash Management Strategy was approved by Council. Through the implementation, the Region will actively manage its investment portfolio to optimize investment returns and will continue to use debt efficiently to provide greater flexibility while minimizing borrowing costs

Monitoring and Reporting

Monitoring and reporting are critical elements of the execution of a strategy. Long-term financial health is achieved when the financial pillars are balanced. Performance indicators allow the Region to track the extent to which these pillars are in balance.

The indicators and their respective targets reflect the changing economic, political, and demographic climate in the Region. In-year monitoring and reporting will measure the performance of implementing the Strategy, identify risks and corrective actions as required.



Pillar 1: Financial Sustainability

The Region's ability to provide and maintain planned service levels and infrastructure assets without unplanned increases in rates or disruptive cuts to services.

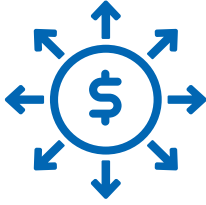
Principle	Indicator	Description	Target
<ul style="list-style-type: none"> • Respect the tax payer • Ensure the Capital Plan is sustainable • Manage assets • Deliver value for money 	Tax rate increase	Measures if the tax rate increases are reasonable for residents.	1–3%
	Capital reserves as a % of 20 year Capital Plan (tax and utility rate)	Identifies if financing the Region's asset portfolio is sustainable through sufficient tax and rate supported reserves. A higher percentage implies higher adequacy of capital reserves to fund the capital plan.	100%
	Asset Health Score	Measures asset health to Council's approved level of service.	Good



Pillar 2: Financial Vulnerability

The degree to which the Region is dependent on external funding sources that it cannot control; it is the level of risk that could impact the ability to meet existing financial obligations and commitments, including the delivery of Regional services.

Principle	Indicator	Description	Target
<ul style="list-style-type: none"> • Users pay where appropriate • Work with local municipalities to manage growth and support economic viability of the community • Make responsible investments 	Reduction in growth related risk	Measures the amount of debt risk that has been mitigated through revenue or expenditure management.	Increasing
	Reliance on external funding	Measures external funding and grants as a percentage of the Region's total revenue. A lower percentage implies that the Region is less reliant on external funds (e.g. provincial and federal grants and transfers) and is able to manage its operations through its own source revenue thereby reducing its vulnerability to the unpredictable nature of these external funds.	TBD
	Proportion of non-residential tax revenue	Measures property tax revenues from the Industrial, Commercial, and Institutional sector as a % of the total operating tax revenue. A decreasing percentage will cause a shift in taxes to the residential sector.	35%-45%
	Investment returns	Measures the earned income on the General Fund Portfolio generated through investing activities. The goal is to meet or exceed the "target return" in order to improve Reserves and Reserve Funds.	Above inflation



Pillar 3: Financial Flexibility

The Region's ability to change either debt levels or taxes and utility rates to meet financial obligations and ensure intergenerational equity.

Principle	Indicator	Description	Target
<ul style="list-style-type: none"> Mitigate significant fluctuations in tax and utility rates Borrow when appropriate for capital infrastructure 	Debt capacity	Measures the ratio of net Regional debt charges to own-source revenue. A lower ratio implies lesser risk for the Region.	<25%
	Reserve adequacy	Measures the number of months the Region can meet its expenses through its reserves. A higher ratio implies that the Region's reserves can sustain its operations for a longer period of time without revenue inflow.	5%-10%
	Liquidity	Measures if the Region has enough liquidity to pay off its debt obligations. A higher ratio implies that the Region is better equipped to meet its liabilities.	>120%

These indicators and their targets will not be static and will be reviewed and revised as needed to ensure the indicators provide proactive measures of the Region's fiscal health. Events including, but not limited to, change in Term of Council priorities, socio-economic or political risks, changes to external funding may trigger a review of the Long Term Financial Planning Strategy to assess the validity of these indicators. This may lead to indicators or targets being added, removed, or modified as required to ensure they provide an accurate representation of the financial health of the Region.

Long Term Financial Planning Strategy Overview



PURPOSE

To guide fiscally responsible, evidence-driven decision making and ensure long term financial sustainability of Regional service outcomes to best serve the residents and businesses in Peel.



OUTCOME

Regional services are financially sustainable.

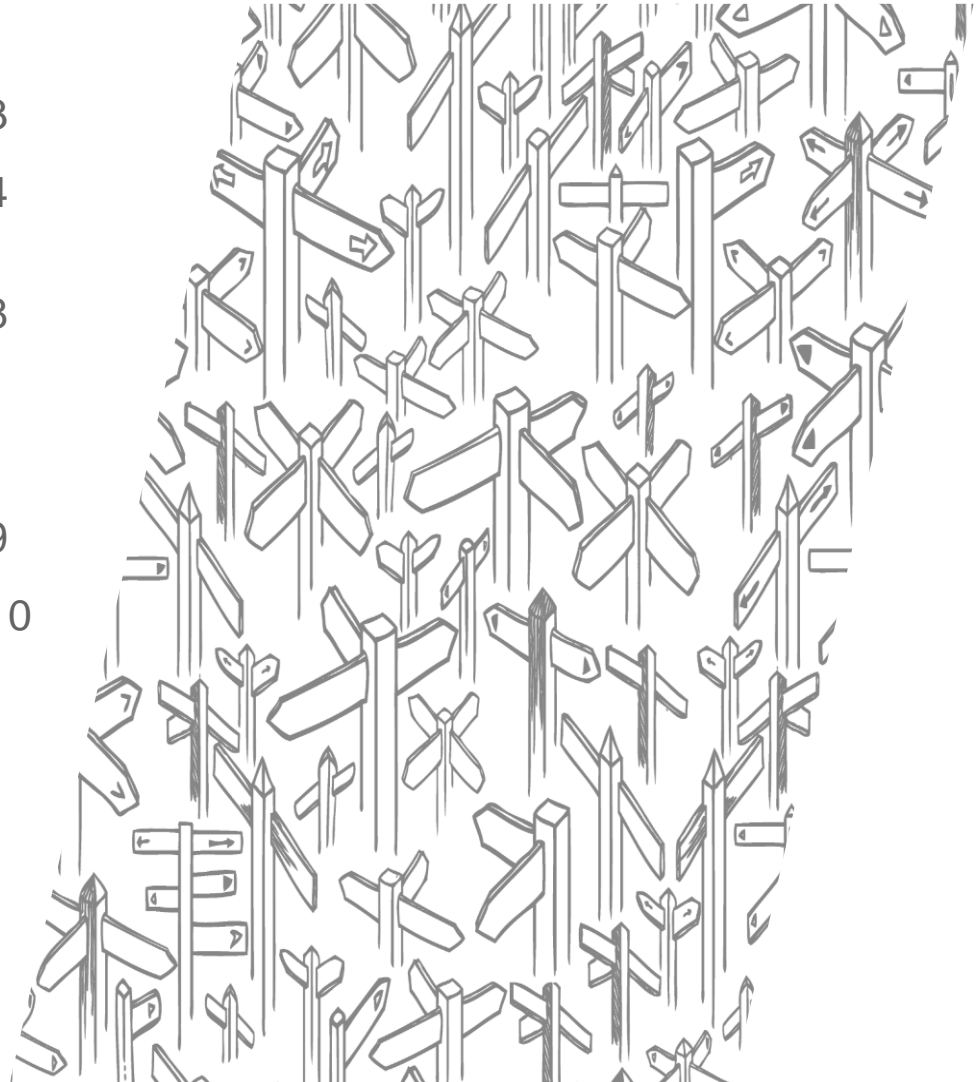
Financial Pillars	Financial Principles		Indicators
<p>Financial Sustainability</p>	<p>Respect the tax payer</p> <p>Manage assets</p>	<p>Ensure the Capital Plan is sustainable</p> <p>Deliver value for money</p>	<ul style="list-style-type: none"> • Tax rate increase • Capital Reserves as a % of 20 Year Capital Plan (tax and utility rates) • Asset Health Score
<p>Financial Vulnerability</p>	<p>Users pay where appropriate</p> <p>Make responsible investments</p>	<p>Work with local municipalities to manage growth and support economic viability of the community</p>	<ul style="list-style-type: none"> • Reduction in growth related risk • Reliance on external funding • Proportion of non-residential tax revenue • Investment returns
<p>Financial Flexibility</p>	<p>Mitigate significant fluctuations in tax and utility rates</p>	<p>Borrow when appropriate for capital infrastructure</p>	<ul style="list-style-type: none"> • Debt capacity • Reserve adequacy

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Fiscal Health Assessment Summary



Overall

- ▶ There has been an **overall improvement in financial health** measured by the existing LTFPS, showcasing a fiscally healthy Region that has been able to achieve the stated objectives of its financial strategy.
- ▶ Through its actions as a result of monitoring the scorecard and applying the LTFPS over the past 5 years, Peel has been able **maintain its AAA/Aaa credit rating from Moody's and S&P**, even through a rapidly growing population and evolving economy.
- ▶ Compared to peer jurisdictions around Canada, Peel's Long Term Financial Planning Strategy is more **mature and comprehensive**. Therefore, updates as part of the LTFPS refresh are related to re-aligning with the Region's 2015-2035 Strategic Plan, integrating the strategy with the Integrated Planning Framework, and incorporating forward-looking quantifiable indicators.

Fiscal Health Assessment based on LTFPS Financial Scorecard

- The following table illustrates the Region's progress in financial health in the five years post implementation of the LTFPS by using the financial scorecard. The Region has witnessed general improvement in most indicators according to the LTFPS scorecard which indicates that the LTFPS has performed well against its own parameters.

Legend: On Track ■ On Track But Declining Trend ■ Off Track ■

	Indicator	2013	2014	2015	2016	2017
Sustainability	AAA Rating	AAA	AAA	AAA	AAA	AAA
	Tax rate in line with inflation	1.3%	1.5%	1.9%	1.9%	2.3%
	100% Adequate Capital Reserves (Tax)	1% infra levy approved	1% infra levy approved	1% infra levy approved	1% infra levy approved	1% infra levy approved
	100% Adequate Capital Reserves (Utility)	6% infra levy approved	7% infra levy approved	3.5% infra levy approved	3.5% infra levy approved	3.5% infra levy approved
	Focus GTA Survey Value for Tax	N/A	N/A	77% residents satisfied	75% residents satisfied	75% residents satisfied
Vulnerability	Less than 20% DC rate increase	Less than 20%	20%	2.9%	Less than 20%	5.4%
	< 50% of Budget funded by property tax	48%	46%	46%	45%	44%
	35%-45% Non Residential Tax Revenue	38.3%	38.3%	37.6%	37.2%	36.7%
	100% Compliance With Investment Policy	Compliant	Compliant	Compliant	Compliant	Compliant
Flexibility	5% - 10% Rate Stabilization Reserve (Tax)	15.8%	15.5%	15%	12%	11.5%
	Cash to fund 12 month debt payments	Yes	Yes	Yes	Yes	Yes
	5% - 10% Rate Stabilization Reserve (Utility)	7%	3.6%	3.1%	7%	7.3%
	Annual debt payments <25% own source revenue*	7.6%	9.1%	8.3%	8.1%	8.9%

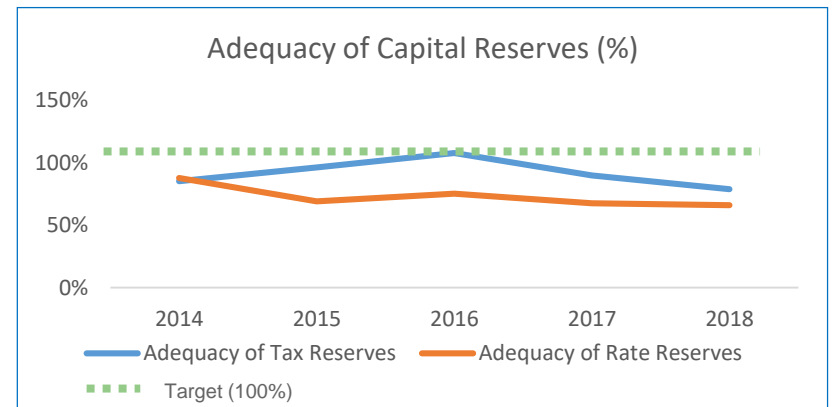
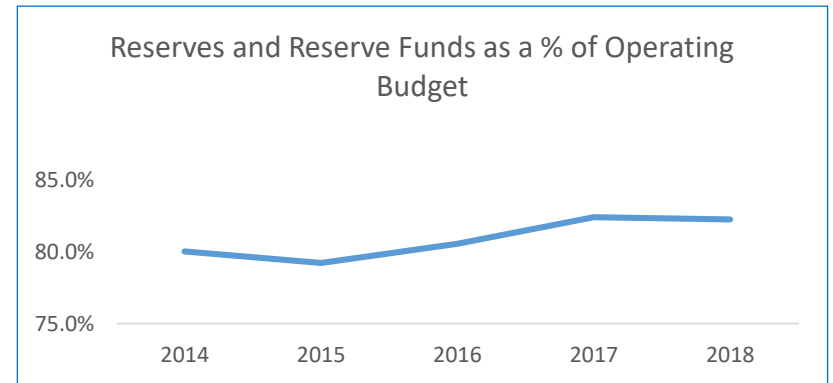
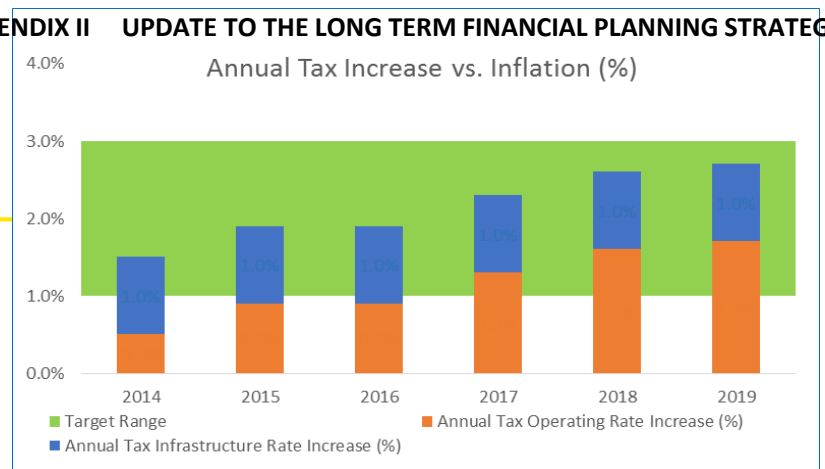
* Reflects the impact of actual debt issuance.

Fiscal Health – Financial Sustainability



Financial Sustainability

- ▶ Peel has been successful in keeping the tax rate in line with inflation over the last five years.
- ▶ Overall increase in reserves and reserve funds to ensure the needs of the capital plans can be met.
- ▶ The Strategy has identified shortfalls in the capital reserves, a corrective action has been to increase infrastructure levies to satisfy the needs as the capital plans continue to grow.

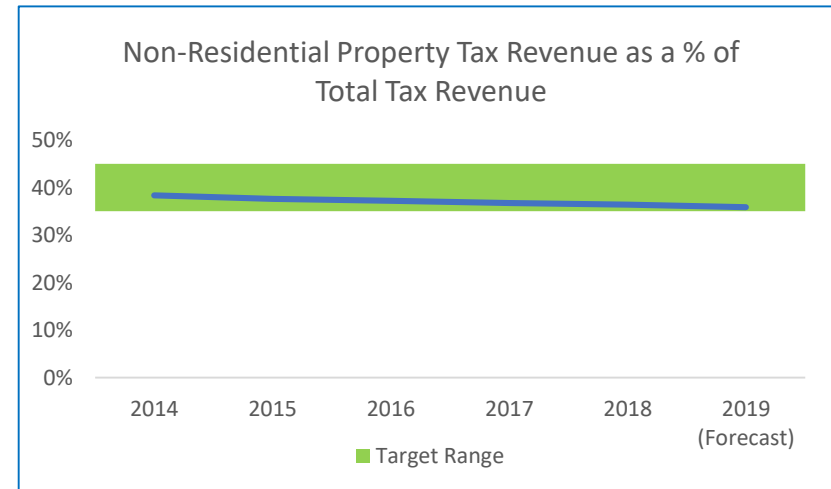
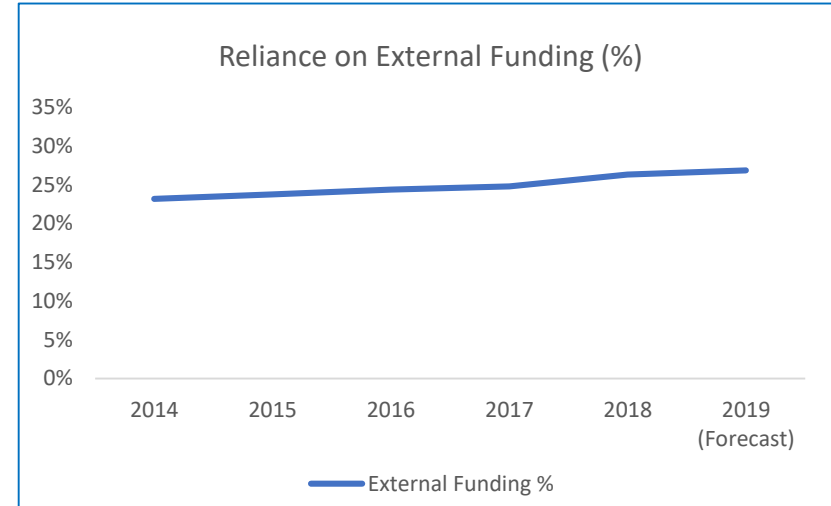


Fiscal Health – Financial Vulnerability



Financial Vulnerability

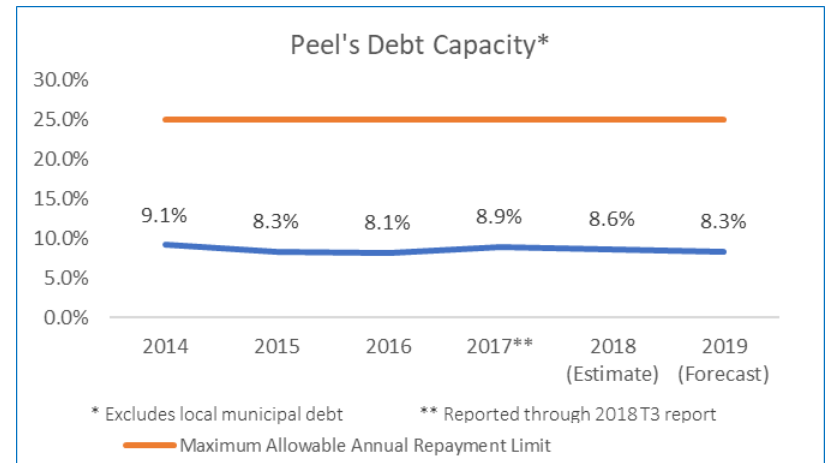
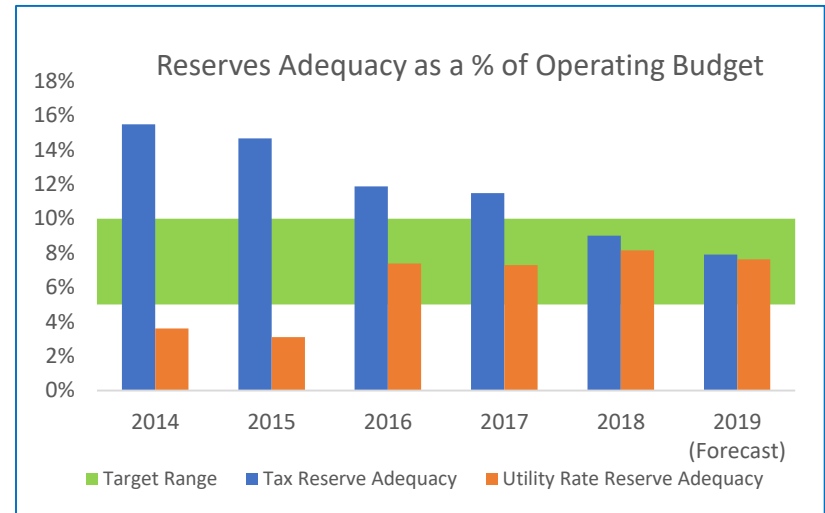
- ▶ Rising reliance on external funding increases the Region's vulnerability to external economic factors.
- ▶ Decreasing proportion of property tax revenues from the non-residential sector as a result shifts the tax burden to the residential sector.



Fiscal Health – Financial Flexibility

Financial Flexibility

- ▶ Peel has made progress in ensuring its tax and utility rate reserves fall within the target of 5-10% of the Region's operating budget.
- ▶ Peel's debt capacity has increased, resulting in Peel's flexibility to meet capital intensive infrastructure needs.



Fiscal Health Risks Identified

While most measures of fiscal health, as defined and monitored by the LTFPS are on track, the following three risks, were identified and require further attention as part of the fiscal health assessment:

Dealing with service level pressures

There is increased pressure for additional infrastructure needs due to regulatory changes, higher demand for services in Regional services, and other community changes. In addition, aging infrastructure will continue to amplify this risk.

Decline in non-residential tax revenue

Non-residential tax revenue has declined over the last decade, and the decline has continued even after the implementation of the LTFPS. This is a result of the changing nature of employment coupled with pressures from the gap in revenue from the non residential sector, causing a shift of the tax burden to residents.

Increased reliance on external funding

Reliance on external funding has marginally increased over the years since the implementation of the LTFPS. With uncertainty related to funding from the upper levels of government, Peel's reliance on such funding for committed programs exposes the Region to seek other sources of funding to maintain service levels

The Updated Strategy ^{8.1-31}

Upon the independent review of the existing Strategy, industry peer review and benchmarks, Peel's current Strategy has been effective. With further understanding of the existing pressures on Peel and from rethinking better ways of monitoring Peel's financial position, the updated LTFPS has clarified its messaging and the updated Scorecard reflects forward looking and trending capabilities.

Purpose

To guide fiscally responsible, evidence-driven decision making and ensure long-term financial sustainability of Regional service outcomes to best serve the residents and businesses in Peel.

Outcome

Regional services are financially sustainable.



Financial Sustainability

- ▶ Respect the tax payer
- ▶ Ensure the Capital Plan is sustainable
- ▶ Manage assets
- ▶ Deliver value for money



Financial Vulnerability




- ▶ Users pay where appropriate
- ▶ Work with local municipalities to manage growth and support economic viability of the community
- ▶ Make responsible investments



Financial Flexibility

- ▶ Mitigate significant fluctuations in tax and utility rates
- ▶ Borrow when appropriate for capital infrastructure

Updates to the Scorecard Indicators

	Refreshed Indicators	Changes	Description	Rationale
 Sustainability	Tax rate increase	Updated	Measures if the tax rate increases are reasonable for residents.	Sets a reasonable range for inflation.
	Capital Reserves as a % of 20 Year Capital Plan (tax and utility rates)	Updated	Identifies if the Region's asset portfolio is sustainable through sufficient tax and rate supported reserves to fund it.	Reflects the update to the change from a 10 Year to 20 year Utility rate supported Capital Plan.
	Asset Health Score	New	Measures the ability to maintain asset health to Council's approved level of service.	Added to monitor Peel's \$28 billion in assets.
 Vulnerability	Reduction in growth related risk	New	Measures the amount of debt risk that has been mitigated through revenue or expenditure management.	Added to focus on issues facing Growth Management.
	Reliance on external funding	New	Measures external funding and grants as a percentage of the Region's total revenue.	Added to monitor risk associated with services that are externally funded.
	Proportion of non-residential tax revenue	Carried Over	Measures property tax revenues from the Industrial, Commercial, and Institutional sector as a % of the total operating tax revenue.	No change.
	Investment returns	New	Measures the earned income on the General Fund Portfolio generated through investing activities.	Indicator that shows that responsible investments are being made with returns that protect purchasing power and earn returns based on acceptable risk levels.
 Flexibility	Debt capacity	Updated	Measures the ratio of net Regional debt charges to own-source revenue. A lower ratio implies lesser risk for the Region.	Leading indicator to ensure the Region maintains its high credit rating.
	Reserve adequacy	Carried Over	Measures the balance of unrestricted budgetary fund reserves as a % of operating budget.	No change.
	Liquidity	Updated	Measures upcoming 4 month average forecast of cash and liquid assets (as on 31st December) as a % of 12 months debt service	Refined indicator description.

2019 Financial Scorecard

<h3>Summary of Financial Health</h3>		<h3>2018 GTA Survey Score</h3> <div style="text-align: center;"> <p>74%</p> </div>	<h3>Independent Assessment by Credit Agencies</h3> <div style="text-align: center;"> <p>Aaa AAA</p> </div>
Financial Sustainability	Maintained services and infrastructure with affordable tax increases. Increasing service pressures from growing population and aging infrastructure.		
Financial Vulnerability	Obtained additional external funding for cost-shared services. Increasing risk due to a change in government and increasing residential tax burden.		
Financial Flexibility	Maintained liquidity to meet the Region's obligations. Increasing need to leverage debt for service enhancements and intergenerational equity.		

Legend — On track Off target

Financial Principles	Indicator	Target	2018 Performance	Risk	Summary of Action
Financial Sustainability					
<p>Respect the tax payer</p>	Tax rate increase	1-3%	<input checked="" type="checkbox"/> Tax rate increases have been in line with inflation	Negative	Action: 2020 budget target to Council and working with external agencies Impact: 2020 budget increase to be in line with inflation
<p>Ensure the Capital Plan is sustainable</p>	Capital Reserves as a % of 20 Year Capital Plan (tax and utility rates)	100%	<input checked="" type="checkbox"/> Tax: The gap between capital needs and available reserves is increasing <input checked="" type="checkbox"/> Utility: The gap between capital needs and available reserves is decreasing, but not adequate	Tax: Negative Utility: Negative	Tax Action: 1% infrastructure levy in 2019 for tax rate Utility Action: 5% infrastructure levy in 2019 for utility rate Tax and Utility Impact: Reduce gap between capital needs and available reserves
<p>Manage assets</p>	Asset Health Score	Good	<input checked="" type="checkbox"/> Assets are maintained to Council's approved service levels	Neutral	No Action
<p>Deliver value for money</p>					
Financial Vulnerability					
<p>Users pay where appropriate</p>	Reduction in growth related risk	Increasing	<input checked="" type="checkbox"/> There has been increased reduction in debt risk	Positive	Action: Update the DC Background Study Impact: Updated DC Background Study will identify future debt financing risk
<p>Work with local municipalities to manage growth and support economic viability of the community</p>	Reliance on external funding	TBD	<input checked="" type="checkbox"/> Over the past five years the proportion of external funding has increased	Negative	Action: Assess impact of Provincial Budget announcement Impact: Minimize service disruptions
<p>Make responsible investments</p>	Proportion of non-residential tax revenue	35-45%	<input checked="" type="checkbox"/> Proportion of non-residential tax revenue is declining	Negative	Action: Research the drivers of the decreasing revenue, including the changing nature of employment Impact: Identify advocacy positions and viable revenue tools
<p>Make responsible investments</p>	Investment returns	Above inflation	<input checked="" type="checkbox"/> Investment returns have consistently been above inflation	Neutral	Action: Identify opportunities to maximize returns Impact: Maximize returns on Regional reserves
Financial Flexibility					
<p>Mitigate significant fluctuations in tax and utility rates</p>	Debt capacity	Below 25%	<input checked="" type="checkbox"/> Annual Repayment Limit has been stable, below maximum acceptable limit	Neutral	Action: Update Debt Policy Impact: Ensure Debt Policy is reflective of current environment
<p>Borrow when appropriate for capital infrastructure</p>	Reserve adequacy	5-10%	<input checked="" type="checkbox"/> Tax: Reserve adequacy has lowered into the recommended target range <input checked="" type="checkbox"/> Utility: Reserve adequacy has increased into the recommended target range	Tax: Positive Utility: Positive	No Action
<p>Borrow when appropriate for capital infrastructure</p>	Liquidity	>120%	<input checked="" type="checkbox"/> The Region continues to be very liquid	Neutral	Action: Continue to improve capital cash flow forecasting Impact: Maximize investment return on reserves



Update of the Long Term Financial Planning Strategy

Stephen VanOfwegen
Chief Financial Officer and Commissioner of Finance
Region of Peel



Background



2013

Long Term Financial Planning Strategy (the “Strategy”) approved



2013-2017

The Strategy applies a financial lens for decision making and reporting



2018

Independent assessment and review conducted



Independent Fiscal Health **Assessment**

A large, light gray, stylized number '1' graphic is positioned on the right side of the slide. It has a thick white outline and is slightly tilted to the right. The number is composed of several rounded rectangular segments.

Fiscal Health Assessment Summary



Overall

- ▶ There has been an **overall improvement in financial health** measured by the existing LTFPS, showcasing a fiscally healthy Region that has been able to achieve the stated objectives of its financial strategy.
- ▶ Through its actions as a result of monitoring the scorecard and applying the LTFPS over the past 5 years, Peel has been able **maintain its AAA/Aaa credit rating from Moody's and S&P**, even through a rapidly growing population and evolving economy.
- ▶ Compared to peer jurisdictions around Canada, Peel's Long Term Financial Planning Strategy is more **mature and comprehensive**. Therefore, updates as part of the LTFPS refresh are related to re-aligning with the Region's 2015-2035 Strategic Plan, integrating the strategy with the Integrated Planning Framework, and incorporating forward-looking quantifiable indicators.

Fiscal Health Risks Identified

While most measures of fiscal health, as defined and monitored by the LTFPS are on track, the following three risks, were identified and require further attention as part of the fiscal health assessment:

Dealing with service level pressures

There is increased pressure for additional infrastructure needs due to regulatory changes, higher demand for services in Regional services, and other community changes. In addition, aging infrastructure will continue to amplify this risk.

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Increased reliance on external funding

Reliance on external funding has marginally increased over the years since the implementation of the LTFPS. With uncertainty related to funding from the upper levels of government, Peel's reliance on such funding for committed programs exposes the Region to seek other sources of funding to maintain service levels

Long Term Financial Planning Strategy 2019



Long Term Financial Planning Strategy Overview



PURPOSE

To guide fiscally responsible, evidence-driven decision making and ensure long term financial sustainability of Regional service outcomes to best serve the residents and businesses in Peel.



OUTCOME

Regional services are financially sustainable.

Financial Pillars	Financial Principles		Indicators
<p>Financial Sustainability</p>	<p>Respect the tax payer</p> <p>Manage assets</p>	<p>Ensure the Capital Plan is sustainable</p> <p>Deliver value for money</p>	<ul style="list-style-type: none"> • Tax rate increase • Capital Reserves as a % of 20 Year Capital Plan (tax and utility rates) • Asset Health Score
<p>Financial Vulnerability</p>	<p>Users pay where appropriate</p> <p>Make responsible investments</p>	<p>Work with local municipalities to manage growth and support economic viability of the community</p>	<ul style="list-style-type: none"> • Reduction in growth related risk • Reliance on external funding • Proportion of non-residential tax revenue • Investment returns
<p>Financial Flexibility</p>	<p>Mitigate significant fluctuations in tax and utility rates</p>	<p>Borrow when appropriate for capital infrastructure</p>	<ul style="list-style-type: none"> • Debt capacity • Reserve adequacy

2019 Financial Condition Scorecard



2019 Financial Condition Scorecard

Sustainability

Financial Principles



Respect the
tax payer



Ensure the Capital
Plan is sustainable



Manage assets



Deliver value
for money

Indicator

Target

2018 Performance

Risk Outlook

UPDATED

Tax rate increase

1-3%



Negative

UPDATED

Capital Reserves
as a % of 20 Year
Capital Plan

100%

Tax

Tax: Negative

Utility

Utility: Negative

NEW

Asset Health Score

Good



Neutral

2019 Financial Condition Scorecard

Vulnerability

Financial Principles



Users pay where appropriate



Work with local municipalities to manage growth and support economic viability of the community



Make responsible investments

Indicator

Target

2018 Performance

Risk Outlook



Reduction in growth related risk

Increasing



Positive



Reliance on external funding

TBD



Negative

Proportion of non-residential tax revenue

35-45%



Negative



Investment returns

Above inflation



Neutral

2019 Financial Condition Scorecard

Flexibility

Financial Principles



Mitigate significant fluctuations in tax and utility rates



Borrow when appropriate for capital infrastructure

	Indicator	Target	2018 Performance	Risk Outlook
	Debt capacity	Below 25%		Neutral
	Reserve adequacy	5-10%	Tax  Utility 	Tax: Positive Utility: Positive
	Liquidity	> 120%		Neutral

