
DATE: July 11, 2019

REPORT TITLE: **STRATEGIES TO ADDRESS THE PROVINCIAL FUNDING CUTS**

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

RECOMMENDATION

That staff work towards a revised 2020 budget target of 3.9 per cent;

And further, that the four services as outlined in the report from the Commissioner of Finance and Chief Financial Officer, titled “Strategies to Address the Provincial Funding Cuts” be reported back to Regional Council prior to the 2020 Budget deliberations, with the service level impacts resulting from Provincial funding reductions.

REPORT HIGHLIGHTS

- Council approved a 2020 net tax levy budget target of 2.9 per cent on May 9, 2019.
- Although the Province has reversed many of its retroactive funding cuts for 2019, these funding cuts are expected to be implemented in 2020.
- The total estimated impact of the provincial funding cuts on the 2020 Budget is \$36.4 million (\$33.2 million for Regionally Controlled services and \$3.2 million for External Agencies) or 3.4 per cent on the net tax levy.
- An additional impact of \$5 million or 0.5 per cent on the net tax levy is expected for 2021.
- The 2020 budget impact of \$36.4 million can be split into 2 levels:
 - - \$25.3 million reduction in the total funding envelope for select programs; and,
 - - \$11.1 million shift of the funding burden from the Province to the property tax payer.
- For External Agencies, the boards of each agency will address their provincial funding cuts through their respective budget processes.
- Over the past five years, the Region of Peel’s (Region) continuous improvement programs have delivered over \$50 million in cost savings or the equivalent of 5 per cent of the net tax levy.
- On June 13, 2019 Regional Council endorsed the Region’s application to the Provincial Audit and Accountability Fund to assist in finding additional efficiencies in programs impacted by Provincial funding reductions
- Council can consider a range of options that include: maintaining current service levels by raising property taxes; reducing service levels to achieve the budget target of 2.9 per cent or a hybrid solution which balances lower service levels with property tax affordability.

STRATEGIES TO ADDRESS THE PROVINCIAL FUNDING CUTS

DISCUSSION

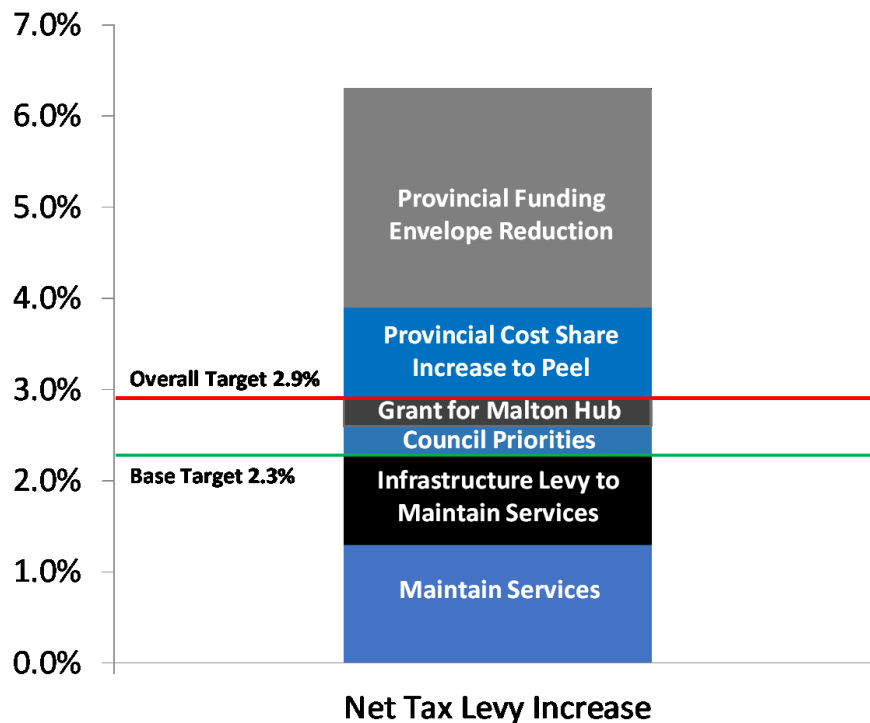
1. Background

In previous years, Council has approved budget targets for the following year as part of the current budget deliberations. For the 2019 Budget, no budget target was recommended for 2020 by the Chief Financial Officer as there was significant risk of Provincial funding changes which could impact the target. The forecast for the 2020 Budget before the Provincial announcements was a net tax levy increase of 4.5 per cent.

Subsequent to the approval of the 2019 Budget, the Province announced funding reductions that impacted a number of programs in Peel including Child Care, Housing, Paramedic Services, Long Term Care, Public Health, Social Assistance and Employment and Prisoner Transport for the Peel Regional Police. Initially it was communicated that the funding changes were to be applied retro-actively in 2019 with significant impacts to the 2020 and 2021 Budgets. Due to municipal advocacy efforts, the Province reversed its decision to apply the funding changes retro-actively but there were still impacts to programs in 2019. Details of the impact can be found in the “2019 Triannual Financial Performance Report – April 30, 2019” from the Chief Financial Officer.

Through the report “Approach to the Development of the 2020 Budget” provided to Council on May 9, 2019, Council approved a 2020 net tax levy target of 2.9 per cent to meet the service level needs of a growing and aging population;

Impact of Provincial Funding on the 2020 Budget



Through the same report, staff also presented an overview of the impact of Provincial funding on the 2020 Budget based on information understood at the time. Based on the

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latest information available, the total impact on the 2020 Budget is estimated at \$36.4 million, equivalent to a net tax levy impact of 3.4 per cent, with \$33.2 million related to Regionally Controlled services and \$3.2 million related to the External Agencies (Peel Regional Police and Conservation Authorities).

The purpose of this report is to provide Council with options to address the Provincial funding cuts for the 2020 Budget.

2. DISCUSSION

Under Peel's Long Term Financial Planning Strategy, net tax levy increases are targeted to be within the inflation range of 1 per cent to 3 per cent. However, in order to achieve this for 2020, service levels for the Region's tax supported services may have to be adjusted due to the reduction in provincial funding. To inform Council's decision and direction, staff looked at three scenarios, each with different net tax levy impacts and corresponding service level risks.

Scenario 1: Maintain Service Levels - 6.3 per cent net tax levy increase.

As mentioned earlier in the report, the Province has made a number of significant funding reductions. These reductions have impacted Peel in two ways:

- \$25.2 million in reductions in the funding envelope for Provincially mandated programs and
- \$11.1 million due to a change in the cost share formula resulting in a shift in the tax burden from the Province to the Peel property tax payer.

The total estimated impact of the provincial funding cuts on the 2020 Budget is \$36.4 million equivalent to a net tax levy impact of 3.4 per cent (see Table 1 below for impacted services). When taken into consideration with the resources required to maintain existing service levels and to meet the service demands of a growing population, a total net tax levy increase of 6.3 per cent would be required.

Table 1: Services with Changes in Provincial Funding

Region of Peel Service	Provincial Funding Envelope Reduction (\$ millions)	Shift in Cost Share from the Province to Peel (\$ millions)	Total Provincial Funding Impact (\$ millions)
Child Care	14.4	9.0	23.4
Paramedics	6.0	0.0	6.0
Long Term Care	0.9	0.0	0.9
Employment Support	0.8	0.0	0.8
Public Health; Chronic Disease, Infectious Disease, Early Growth & Development	0.0	2.1	2.1
Total Region Services	\$22.1M	\$11.1M	\$33.2M
Peel Regional Police	2.6	0.0	2.6

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Conservation Authorities	0.6	0.0	0.6
Total External Agencies	\$3.2M	\$0.0M	\$3.2M
Total Region of Peel	\$25.3	\$11.1	\$36.4M

Under Scenario 1, there would be no reduction in the current service levels previously approved by Council as all of the provincial funding reductions on Regionally controlled programs would be replaced by property tax dollars. However, this would result in a net tax levy increase of 6.3 per cent, which is outside of the range recommended by the Long Term Financial Planning Strategy. In addition, without details of the Health Service integrations for Paramedic Services and Public Health, there is risk that whatever is approved through the 2020 Budget may form the base of the levy amounts from these new Health agencies in the future.

Scenario 2: Reduce Service Levels - 2.9 per cent net tax levy increase.

a) Funding Envelope Reductions

Under Scenario 2, for the four services that the Province has chosen to reduce through funding envelope reductions (see Table 1 above), the service levels would be reduced by the amount of the funding envelope reduction. For Regionally controlled services, that would total \$22.1 million. As outlined in Table 2 below, there would be service level risks to four key services within Peel.

Table 2: Region Controlled Services that the Province has chosen to reduce

Impacted Service	Funding Envelope Reduction (\$ millions)	Service Outcome
Child Care	14.4	Residents have access to safe and affordable child care
Paramedics	6.0	Peel residents and visitors receive quality pre-hospital care
Long Term Care	0.9	Residents in our Long Term Care homes receive care to enhance their quality of life
Employment Support	0.8	Peel residents in need have access to available financial supports
Total	\$22.1M	

For the \$3.2 million in funding reductions for the external agencies, Peel Regional Police and Conservation Authorities, the boards of each agency will also face difficult decisions to address their respective funding reductions within their 2020 budgets.

b) Shift in the Cost Share Funding Formula

As outlined in Table 1 above, the Province is requiring Peel to replace Provincial funding with property tax dollars through changes in the cost share formulae. The impact of this change is \$11.2 million, equivalent to a one per cent net tax levy increase. To mitigate

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the impact of the change in the cost share, the \$11.2 impact would require service level reductions across all remaining Regionally controlled services.

To determine the level of discretion to change service levels, staff conducted a review of all services currently provided by the Region of Peel. The review suggests that there are varying levels of discretion related to the service levels provided by each service. Staff categorized all Region controlled services under three general headings;

- Provincially Legislated with some discretion,
- Council Mandated,
- Hybrid (has elements of both Provincially Legislated and Council Mandated).

Appendix 1 provides a list of the Region controlled services and the general level of discretion for each.

Scenario 3: Hybrid Model - 3.9 per cent net tax levy increase

Scenario 3 represents an option between Scenario 1 and Scenario 2. The services impacted by Provincial funding envelope reductions would reduce service levels for the amount of the funding envelope reduction. However, the net tax levy would be increased by \$11.2 million dollars to fund the impact of the changes in the cost share formulae required by the Province. This would drive an additional one per cent net tax levy impact resulting in an overall net tax levy increase of 3.9 per cent.

Under this scenario, although there would be a significant service level impact for the services with reducing provincial funding, it would be less severe than Scenario 2 as it would not require service level reductions in other program areas.

3. Peel's Continuous Improvement Program

As reported to Council with each annual budget, the Region has a robust continuous improvement program in place. Tactics include LEAN process improvement, program evaluation and review of service delivery models. Over the past five years these efforts have resulted in cost savings of over \$50 million or the equivalent of 5 per cent of the net tax levy.

In addition to Peel's continuous improvement program, on June 13, 2019, Regional Council endorsed Peel's application to the Provincial Audit and Accountability Fund to assist in finding additional efficiencies in programs directly impacted by Provincial funding reductions.

4. Proposed Direction

All three of the outlined scenarios have risks. They range from Scenario 1 where there is very little service level risk but requires a high property tax increase to Scenario 2 where there is high service level risk while keeping property tax increase in line with inflation.

Staff recommends the implementation of Scenario 3 for the development of the 2020 Budget for Council consideration as the net tax levy increase of 3.9 per cent is slightly outside of the expected inflation range of one to three per cent. Services targeted by the Province with funding envelope reductions will require service level reductions. For the four impacted programs (Child Care, Paramedic Services, Public Health and Employment Support),

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Council will be provided with reports detailing the service level impacts to address the funding envelope reductions.

CONCLUSION

The funding reductions by the Province and shift to increase the Region's share of provincial programs will have a significant negative impact on the services or require an increase in property taxes. There are a number of strategies to address the impact of the funding changes that require Council's direction to appropriately balance overall service levels with affordable net tax levy increases.



Stephen VanOfwegen, Commissioner of Finance and Chief Financial Officer

Approved for Submission:



D. Szwarc, Chief Administrative Officer

APPENDICES

Appendix I - Peel Services Overview

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
STRATEGIES TO ADDRESS THE PROVINCIAL FUNDING CUTS**

**Regional Service
Service Outcome
Service Delivery Requirement**

	SERVICE	OUTCOME	REQUIREMENT
LIVING	Child care	Residents have access to safe and affordable child care.	Hybrid – Provincially Legislated and Council Mandated
	Housing Support	Residents in need have access to a range of housing options in Peel.	Hybrid – Provincially Legislated and Council Mandated
	Homelessness Support	Homelessness in Peel is prevented.	Council Mandated
	Income Support	Peel residents in need have access to available financial supports.	Provincially Legislated with discretion
	Employment Support	Peel residents in need have the tools and skills to find and keep a job.	Hybrid – Provincially Legislated and Council Mandated
	Community Investment	Community partners in need have support to deliver services to Peel residents.	Council Mandated
	Adult Day	Residents in need receive supports that allow them to stay in their homes longer.	Council Mandated
	Long Term Care	Residents in our Long Term Care (LTC) homes receive care to enhance their quality of life.	Hybrid – Provincially Legislated and Council Mandated
	Paramedics	Peel residents and visitors receive quality pre-hospital care.	Provincially Legislated with discretion
	TransHelp	Peel residents in need can travel within their community without barriers.	Provincially Legislated with discretion
THRIVING	Early Growth & Development	Children in Peel are supported to achieve their mental and physical potential.	Hybrid – Provincially Legislated and Council Mandated
	Chronic Disease Prevention	Peel residents live longer and healthier due to reduced risk of chronic diseases.	Provincially Legislated with discretion
	Infectious Disease Prevention	Peel residents are protected against infectious diseases.	Provincially Legislated with discretion
	Water Supply	Safe, reliable and high-quality drinking water is available to Peel customers.	Provincially Legislated with discretion
	Wastewater	Wastewater in the Region of Peel is removed in a safe and environmentally responsible manner.	Provincially Legislated with discretion
	Waste	Waste in the Region of Peel is collected on time and managed in a safe and environmentally responsible manner.	Provincially Legislated with discretion
	Roads & Transportation	People and goods can move safely and efficiently throughout Peel.	Hybrid – Provincially Legislated and Council Mandated
	Land Use Planning	Communities in Peel are complete and sustainable for residents and businesses.	Provincially Legislated with discretion
	Heritage, Arts & Culture	Peel residents are engaged in an understanding of our history and culture.	Council Mandated
LEADING	Public Accountability	The Region of Peel is an accountable and transparent government.	Hybrid – Provincially Legislated and Council Mandated
	Financial Management	The Region of Peel is financially sustainable (to best serve the residents and business in Peel).	Hybrid – Provincially Legislated and Council Mandated
	Workforce	The Region of Peel has skilled and productive employees (to best serve the residents and businesses in Peel).	Hybrid – Provincially Legislated and Council Mandated
	Asset Management	The Region of Peel builds, maintains and monitors infrastructure (to best serve the residents and business in Peel).	Hybrid – Provincially Legislated and Council Mandated
	Corporate Governance	The Region of Peel is well-managed and adaptable (to best serve the residents and business in Peel).	Hybrid – Provincially Legislated and Council Mandated
	Information & Technology	The Region of Peel has evolving information and technology.	Hybrid – Provincially Legislated and Council Mandated

Investing to build our *Community for Life*

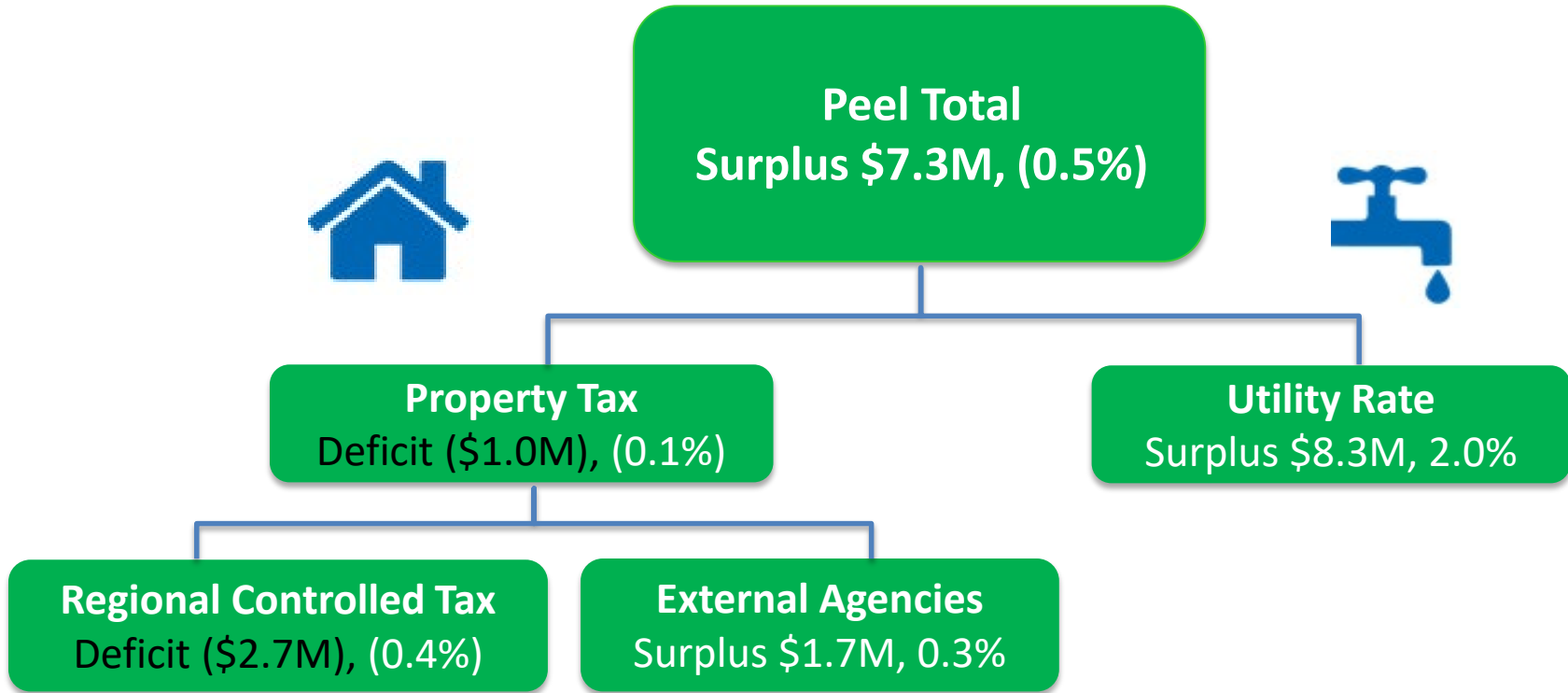
Living. Thriving. Leading.

Strategies to Address Provincial Funding Cuts

Regional Council
July 11, 2019



8.1-9 **Operating Budget Variance**
within Target of +/- 3%



Tax Supported Operating Budget Variance

Revenue and Expenditures

- Lower waste fibre revenue



- **Provincial Budget cuts - \$8.8M**

- Paramedic Services



- Long Term Care



- Reduction in Community Homelessness Prevention Initiative



- Public Health cost shared funding reduction



- Lower rent supplement



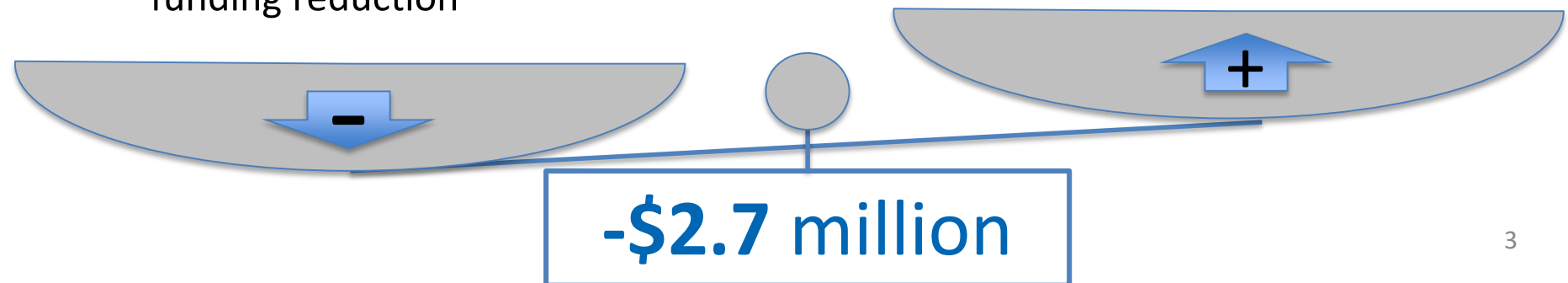
- Peel Renovate program under review



- Lower electricity cost due to LED street lights



- Delays in completion for two Butterfly households at Sheridan Villa



Proposed Net Tax Levy 2.9%+

As Presented to Council on May 9



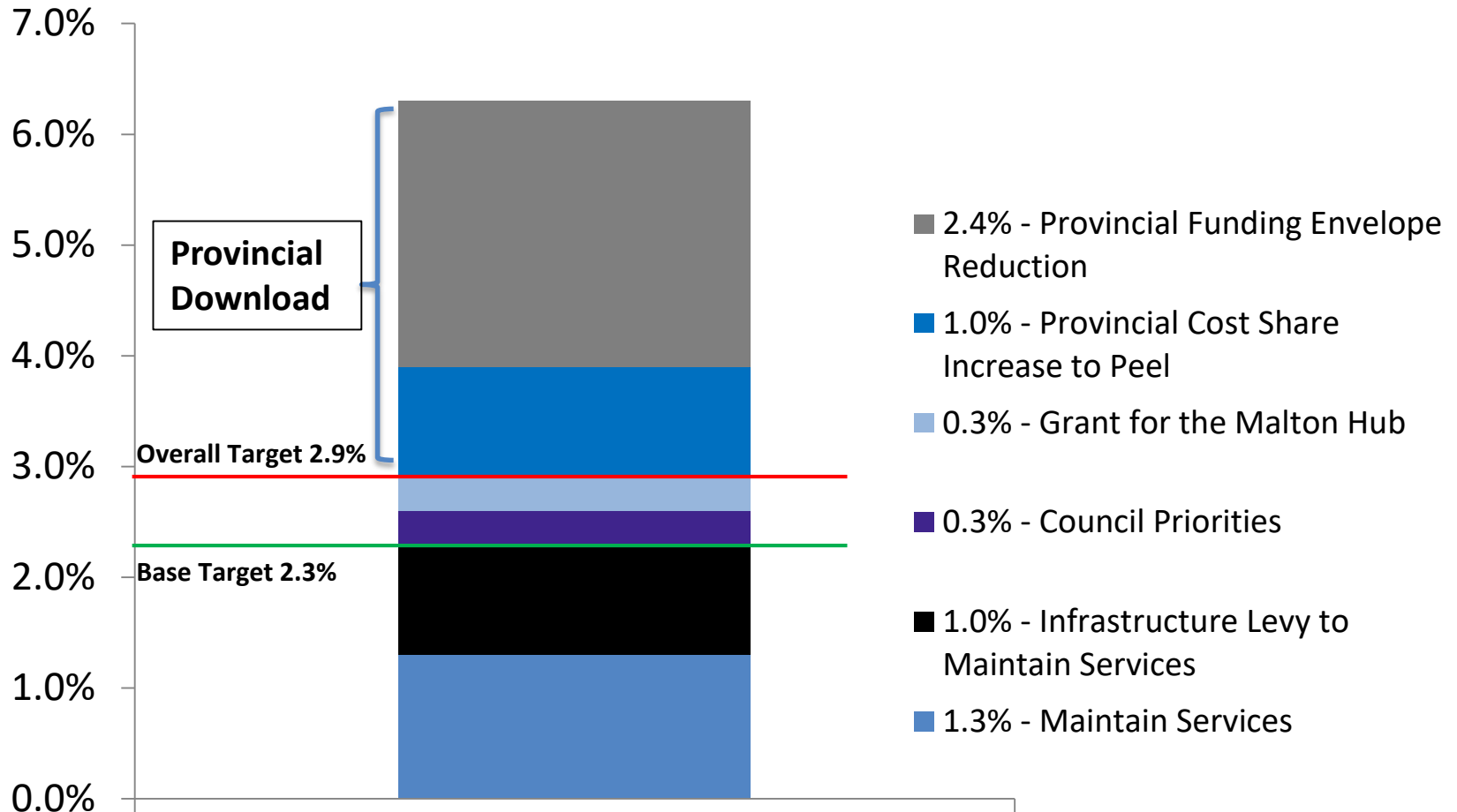
	2020 Forecast	2020 Proposed
Base – Maintain Existing Service Levels*	2.9%	1.3%
Infrastructure Levy	1.0	1.0
Community Priorities	0.3	0.3
Grant to Mississauga - Malton Hub	0.3	0.3
Sub-total before Provincial Impact	4.5%	2.9%
Estimate of Provincial Download	3.3%	TBD
Total Net Tax Levy	7.8%	2.9%+

*Net of 1.1 % Assessment Growth
+ impact of Provincial Download

Scenario 1 – Maintain Service Levels

6.3% Net Tax Levy Increase

Increase Property Taxes to replace all Provincial Funding Reductions



Scenario 1 – Maintain Service Levels

6.3% Net Tax Levy Increase

Benefits

- Advance *Community for Life* outcomes
- Maintains existing service levels to a growing population

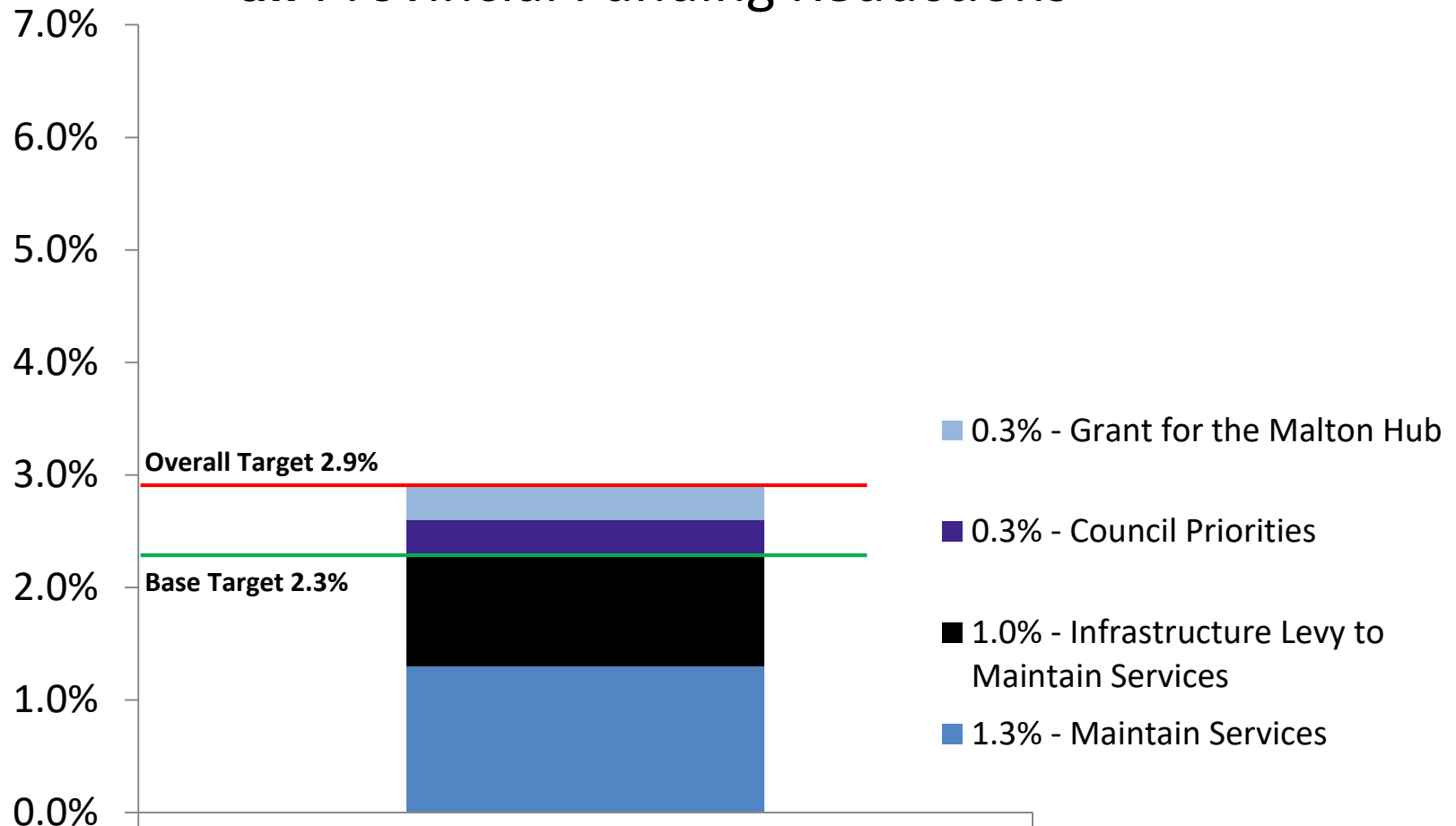
Risks

- May set the base for future Provincial levy on Peel
- Provincial deficit reduction funded by Property Taxpayer
- Exceeds target for affordable Property Taxes

Scenario 2 – Reduce Service Levels

2.9% Net Tax Levy Increase

Reduce Service Levels to Address all Provincial Funding Reductions



Scenario 2 – Reduce Service Levels

2.9% Net Tax Levy Increase

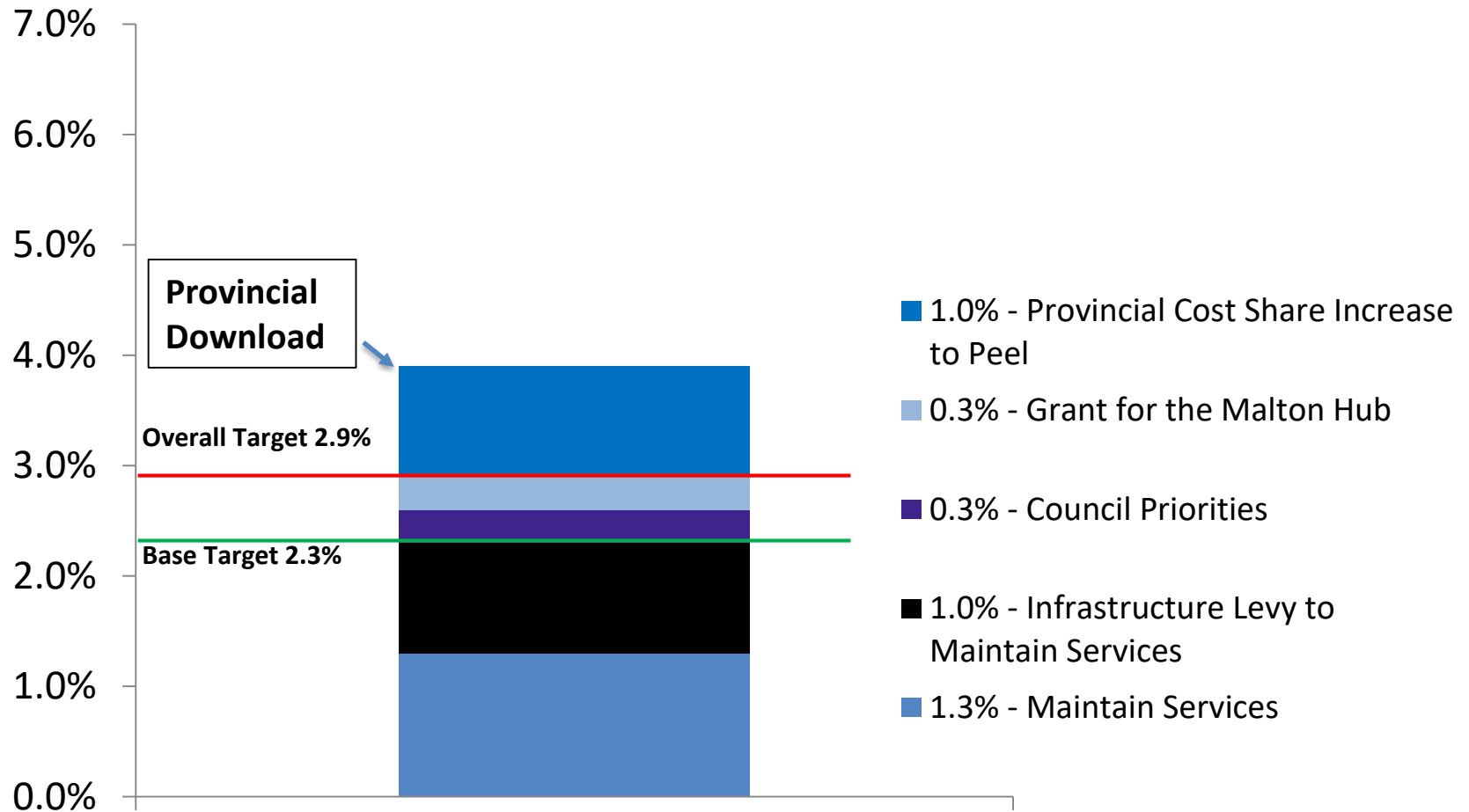
Benefits

- In line with Long Term Financial Planning target for affordability

Risks

- Service level reductions
 - where Province reduced funding:
 - Child Care
 - Paramedic Services
 - Long Term Care
 - Employment Support
 - for Provincial cost share decrease:
 - all other Region controlled services
- *Community for Life* outcomes at risk

Increase Property Taxes due to decrease in Provincial Cost Share & Reduce Service Levels



Scenario 3 – Hybrid Model

3.9% Net Tax Levy Increase

Benefits

- Maintains some service levels
- Advances some *Community for Life* outcomes
- Address some population growth service demands
- Supports Council priorities

Risks

- Slows progress to achieve *Community for Life* outcomes
- Reduce Service Levels where Province reduced funding:
 - Child Care
 - Paramedic Services
 - Long Term Care
 - Employment Support

Summary of Scenarios To Address Provincial Funding Cuts

Scenario 3 – Hybrid Recommended

Subject to Council review of service level impacts



	Scenario 1	Scenario 2	Scenario 3 Hybrid
Base – Maintain Existing Service Levels	1.3%	1.3%	1.3%
Infrastructure Levy	1.0	1.0	1.0
Community Priorities	0.3	0.3	0.3
Grant to Mississauga - Malton Hub	0.3	0.3	0.3
Increase to replace Provincial \$	3.4	-	1.0
Total Net Tax Levy	6.3%	2.9%	3.9%
Service Level Impact	Low	High	Medium - High

Note: Figures are net of 1.1 % Assessment Growth