
REPORT TITLE: Approach to the Development of the 2022 Budget

FROM: Gary Kent, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

That the 2022 Budget be developed to ensure the long term sustainability of services and demonstrate respect for the taxpayer, as outlined in the report of the Chief Financial Officer and Commissioner of Corporate Services, listed on the June 24, 2021 Regional Council agenda, titled “Approach to the Development of the 2022 Budget”;

And further, that staff work with the external agencies to develop 2022 budgets reflecting the direction outlined in the subject report;

And further, that the timelines for the 2022 Budget deliberations as outlined in Appendix I of the subject report be approved;

And further, that the Region of Peel continue to advocate to the Minister of Education for flexible, predictable and multi-year funding to the Early Years and Child Care system;

And further, that the Region of Peel continue to advocate to the Minister of Finance for the elimination of the increase cap on PILT revenue from the Greater Toronto Airport Authority;

And further, that the Region of Peel continue to advocate to the federal and provincial governments for increased infrastructure resiliency funding to stimulate Peel's economic recovery.

REPORT HIGHLIGHTS

- The Region of Peel’s Long-Term Financial Planning strategy recommends that tax increases be sustainable and demonstrate respect for the taxpayer
- Managing the 2022 budget increase will require participation of all services funded by the net tax levy: Regionally Controlled Services (55 per cent) and Regionally Financed External Agencies (45 per cent) as based on the 2021 budget
- It is proposed the 2022 Budget be deliberated starting November 25, 2021
- A pre-liminary property tax increase of 1.8 per cent is estimated for the 2022 Budget (equivalent to a Regional net tax levy increase of 4.4 per cent)
- Key risks and trends that will inform the development of the budget include economic and market volatility, and addressing the state of good repair of Peel’s aging infrastructure
- Key drivers of the forecasted net tax levy include:
 - \$8.8 million loss in PILTs revenue from the Greater Toronto Airport Authority
 - \$7.5 million decrease in provincial funding for Early Years and Child Care

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- Other significant drivers of the net tax levy include:
 - Council priority investments such as the Seniors Health & Wellness Village
 - Inclusion of an infrastructure levy to ensure the state of good repair of assets
 - Increased community safety from Police Services
 - Staff will be analyzing options to mitigate the property tax impact including cost containment measures
 - Similar to the 2021 Budget, COVID-19 is not expected to have a direct net impact on the 2022 Budget. However, there will be indirect impacts such as:
 - Economic uncertainty
 - Income uncertainty for residents and businesses
 - Post-COVID-19 recovery of services, many of which that have slowed down due to the redeployment of staff to support the COVID-19 response
 - Both Regionally Controlled programs and the external agencies will work towards minimizing proposed budget increases
 - A utility rate increase of 7.6 per cent is forecast for the 2022 Budget including an infrastructure levy of 5.0 per cent for the state of good repair of water/wastewater assets
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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. However, with the current uncertainty in the economy, inflation is expected to be higher for capital work.

The annual budget provides the resources to advance the priorities identified by Council through its vision of a Community for Life and to enable the policy decisions Council has made prior to the budget. As the Peel community and economy begin their recovery from the COVID-19 pandemic, the focus of the 2022 Budget will be to ensure the provision of critical services and balance it with the goal to keep increases as low as possible.

In prior years, budget targets for the following year have been recommended. However, similar to 2020, no budget target was provided through the 2021 Budget due to the level of uncertainty resulting from changes driven by the pandemic.

2. Findings

A property tax increase of 1.8 per cent and a utility rate increase of 7.6 per cent are estimated for the 2022 Budget. The property tax increase is based on a pre-liminary Regional net tax levy increase of 4.4 per cent and that the Region represents, on average, 40 per cent of the property tax bill.

a) Net tax levy

There are many components and drivers behind the forecasted net tax levy increase of 4.4 per cent. Highlights include the following.

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i) Economic

A key driver of the budget includes pressure from economic adjustments. These pressures are partially offset by annual adjustments to external revenue from upper levels of government. However, as experienced over the past few years, funding freezes and lower than inflation increases in funding have put additional pressure on the budget.

ii) Council Priorities

A number of key Council priorities have been reflected in the pre-liminary budget estimate. The priorities include:

- Implementing the Seniors Health and Wellness Village as presented to Council on April 8, 2021
- Ensuring that Paramedic Services can meet the call volume from a growing population
- Expanding of the EarlyON program, and
- Improving waste diversion.

There are other emerging pressures such as the need for increased housing options that are not reflected yet in the pre-liminary net tax levy.

iii) Ensuring the Capital Plan is Sustainable

The forecasted increase also reflects a 1.0 per cent infrastructure levy to fund the replacement of existing infrastructure as it reaches the end of its life cycle. Through the 2021 Budget process, the infrastructure levy was established at 0.6 per cent with a 1.0 per cent infrastructure levy required for the 2022 to 2026 budgets. This increase is to fund the \$1.3 billion shortfall in the capital reserves forecasted over the next twenty years.

iv) Payments In Lieu of Taxes (PILT)

As a result of the COVID-19 pandemic, there was a significant reduction in the passenger volume at the Lester B. Pearson International Airport in 2020. This decreased passenger volume will result in an estimated reduction in PILT's revenue of \$8.8 million due to the two-year funding lag as currently prescribed in the funding formula. Based on current regulations, this reduction will not correct itself to 2019 levels for 35 years and a further reduction, based on 2021 passenger levels, is likely in 2023.

v) Provincial Funding

As Council will recall, during the 2021 Budget deliberations, \$1.2 million of the \$5 million funding reduction for Early Years and Child Care was recognized in the budget leaving \$3.8 million to be addressed through the 2022 Budget. In addition to the 2021 funding reduction, the Province has indicated a further reduction in funding to the Early Years and Child Care service in the amount of \$3.7 million for 2022 bringing the total pressure to \$7.5 million.

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vi) External Agencies

In addition, the external agencies (Peel Regional Police, Ontario Provincial Police, and the three conservation authorities) represent approximately 45 per cent of the total net tax levy. The budget submissions for the external agencies are approved by separate boards so there is limited ability for staff to influence these. As in prior budgets, increased community safety is a key driver within the Peel Regional Police 2022 forecast.

Staff are currently working through options to mitigate the financial impact of these budget pressures. Staff are also actively working on meeting a challenge from the CAO to achieve the equivalent to a 1 per cent expenditure reduction. To meet this challenge, staff are utilizing cost containment approaches including line-by-line reviews of budgets, implementing continuous improvement initiatives including LEAN to drive savings and, in the longer term, undertaking service reviews.

b) Utility rate

The forecasted utility rate increase for the 2022 Budget is 7.6 per cent which includes a 5 per cent infrastructure levy. The infrastructure levy increase is to ensure there are sufficient funds to replace infrastructure when it is required to ensure service levels are maintained. As presented to Council through the 2021 Budget, in order to have sufficient capital reserves to fund the forecasted 20-year capital plan, a 5.0 per cent infrastructure levy is required for an additional two years (2022 and 2023) to meet the currently \$1+ billion reserve shortfall estimated over the next twenty years. However, asset management plans will continue to evolve and staff will provide updates on a regular basis.

c) Impact of COVID-19

As seen in 2020, the Region was able to effectively manage the financial impact of COVID-19 through hiring freezes, redeploying existing staff to support the COVID-19 response and implementing other cost containment measures. The provincial government provided program specific funding to address COVID-19 related costs and pressures experienced in Peel's services.

Through the federal-provincial Safe Restart Agreement program, funding of \$47.9 million was also allocated to Peel to address 2020 COVID-19 pressures with any unused amounts placed in a reserve to help address 2021 COVID-19 pressures. After the application of \$16.9 million to address 2020 COVID-19 pressures, \$31 million remained available and was put into a reserve to fund future COVID-19 pressures.

In addition, Peel was also allocated \$24.6 million in funding from the Provincial COVID-19 Recovery program to address 2021 and 2022 COVID-19 pressures. As Council will see through a report scheduled for July 8, 2021 titled, "2021 Financial Operating Triannual Performance as of April 30, 2021", an estimated \$39.7 million in COVID-19 funding will be required. This will leave \$15.9 million to address COVID-19 costs and pressures in 2022.

3. Proposed Direction

A best practice, as articulated by the Municipal Finance Officers Association, is to obtain

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budget approval prior to the start of the fiscal year. As such, staff propose that the first date for budget deliberation be November 25, 2021 where Council will be presented the 2022 Budget Overview 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 Authority and Conservation Halton) will present their respective budgets to Regional Council on December 2, 2021. December 9 and December 16 are held as budget meeting dates for further budget deliberations, if required. The proposed budget timelines are presented in Appendix I.

As mentioned earlier in the report, past practice has been to establish a budget target to guide the development of the budget. For the 2022 Budget, given the uncertainty related to the duration of COVID-19, the time required to recover from the pandemic and the uncertainty around provincial funding, no budget target is recommended. However, staff proposes that both Regionally Controlled programs and the external agencies work towards developing a responsible and sustainable 2022 Budget recognizing the economic impact the pandemic has had on the incomes of both residents and businesses in the Peel community. Staff will also continue to work with the external agencies to provide guidance and support to achieve this goal.

As was the case with the 2021 Budget, the 2022 Budget will fund any temporary costs driven by the COVID-19 pandemic through remaining Safe Restart Funding, draws from the rate stabilization reserves or a combination of the two.

To reduce the pressure on the 2022 and future budgets, Council advocacy to the Province is critical for flexible, predictable multi-year funding to the Early Years and Child Care system and to remove the cap on the annual increase in PILTs revenue from the Greater Toronto Airport Authority as passenger traffic numbers recover.

In addition, advocacy efforts to the provincial and federal governments are required for increased infrastructure resiliency funding to stimulate Peel's economic recovery.

RISK CONSIDERATIONS

Balancing a budget increase and the needs of the community is challenging as minimizing budget increases may result in increased risk to fully addressing service demand pressures and service risks. To help mitigate this risk, staff will be reviewing Regional services for cost containment options that have minimal impact on service delivery and any significant risks would be highlighted to Council through the budget process. In addition, the net tax levy forecast reflects what is known at the time of the writing of the report and does not reflect pressures from policy changes that Council may approve subsequent to the report.

To provide Council with an opportunity to hear from the external agencies that receive significant funding from the Region, the Peel Regional Police, the Toronto Region and Conservation Authority and the Credit Valley Conservation Authority will present Council with their respective service risks and pressures in June 2021.

As was the case with the 2021 Budget, provincial funding for 2022 may not be confirmed prior to the proposed first date of budget deliberations. Staff will use the best information available to make appropriate assumptions in the development of the budget. In addition, the legacy impacts of COVID-19 on service demand are still unknown. Many of Peel's services were

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scaled back over the last year as staff and resources were redeployed to support the COVID-19 response. There may be a recovery period as services return back to normal service levels.

CONCLUSION

The proposed approach to developing the 2022 Budget is consistent with the Long-Term Financial Planning Strategy and best practices recommended by the Municipal Finance Officers Association. As the impacts of COVID-19 continue to evolve, Council's guidance on the 2022 Budget will assist in service planning, inform the priority setting of Strategic Plan outcomes, community risks and the impacts of the provincial budget. Regional staff will continue to work with external agencies to facilitate Council's direction for a responsible and sustainable 2022 Budget.

APPENDICES

Appendix I – Proposed Timelines

For further information regarding this report, please contact Norman Lum, Director, Business & Financial Planning at extension 3567 or via email at norman.lum@peelregion.ca.

Authored By: Norman Lum, Director, Business & Financial Planning

Reviewed and/or approved in workflow by:

Department Commissioner, Division Director and Legal Services.

Appendix I

Approach to the Development of the 2022 Budget

PROPOSED TIMELINES	
Activity	Date
Approach to the Development of the 2022 Budget - Council Report	June 24, 2021
External Agencies Presentations on Progress Report and Future Outlook	June 24, 2021
Electronic Copy and Hard Copy of the 2022 Budget Document and Presentation to Councillors	November 4, 2021
Continuous Improvement Update - Council Report	November 11, 2021
Notice to the Public	November 11, 2021
Budget Document available on the website	November 11, 2021
The 2021 Infrastructure Status and Outlook - Council Report	November 25, 2021
Overview and Update on the Status of Reserves - Council Report	November 25, 2021
2022 Budget Deliberations	
Regional Budget Corporate Overview	November 25, 2021
Regional Services Budget Presentations	November 25, 2021
Police Service Budget Presentations	December 2, 2021
Conservation Authorities Service Budget Presentations	December 2, 2021
Additional Budget Deliberation	December 9, 2021
Additional Budget Deliberation	December 16, 2021

Approach to the Development of the 2022 Budget



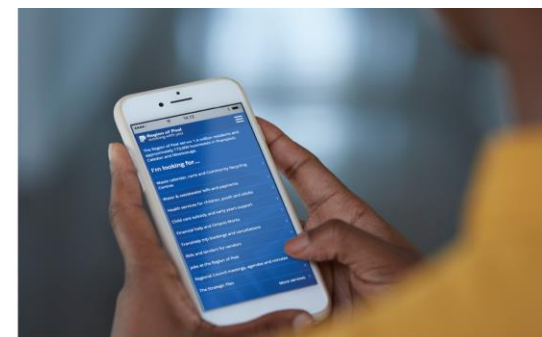
Living

People's lives are improved
in their time of need.



Thriving

Communities are integrated,
safe and complete.



Leading

Government is future-oriented
and accountable.

Gary Kent, Chief Financial Officer and Commissioner of Corporate Services

Norman Lum, Director, Business and Financial Planning

10.2-8

- ✓ Provincial and Federal Elections
- ✓ Legislation and Regulations
- ✓ Climate/ Weather
- ✓ Evolving Technology
- ✓ Changing Nature of Employment
- ✓ Economic and Market Volatility
- ✓ Aging Infrastructure
- ✓ COVID-19 Recovery
- ✓ Other Risks



Long Term Financial Planning Strategy

Financial Principles



Respect the taxpayer



Ensure the Capital Plan is sustainable



Manage assets



Deliver value for money



Users pay where appropriate



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



Make responsible investments

10.2-10



Mitigate significant fluctuations in tax and utility rates



Borrow when appropriate for capital infrastructure



Long-Term Utility Financial Plan



Housing Capital Liability



Waste Management
Financial Plan



Climate Change
Financing Strategy



Net Expenditure Increase

*Net of assessment growth of 0.8%

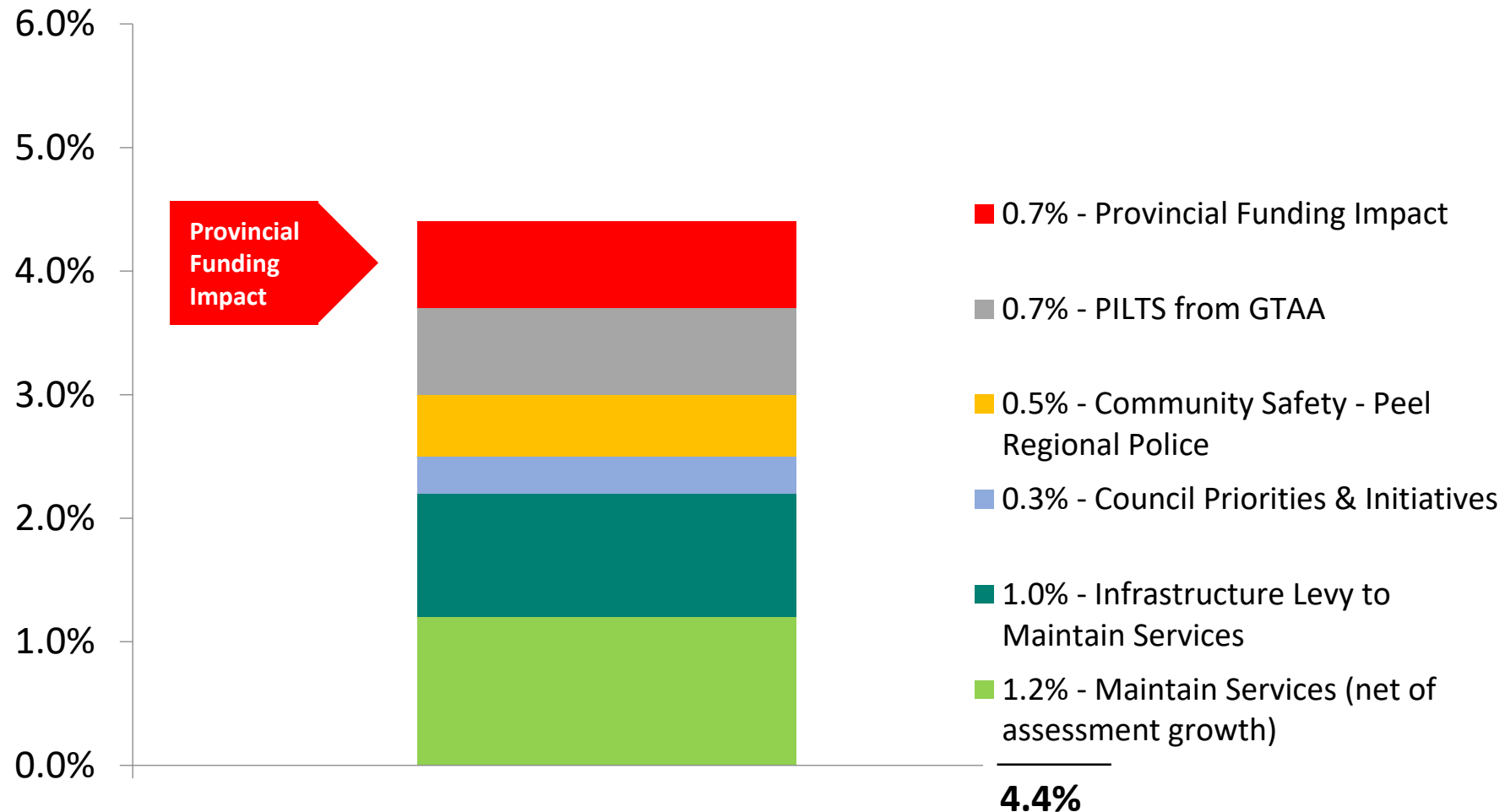


Utility Rate Increase

Peel rates are 35% below GTA average

	2022*	2023*	2024*
Net Expenditure Increase	4.2%	2.7%	2.3%
	2022	2023	2024
Utility Rate Increase	7.6%	5.7%	TBD

Area of Change	Impact
Early Years and Child Care	Additional 2022 funding cut of \$3.7M
Seniors Health & Wellness Village	As reported to Council, a phased in approach for implementation which will reduce the 2022 impact
GTAA PILT	Bigger passenger drop in 2020 than initially forecast resulting in greater impact on PILT revenue



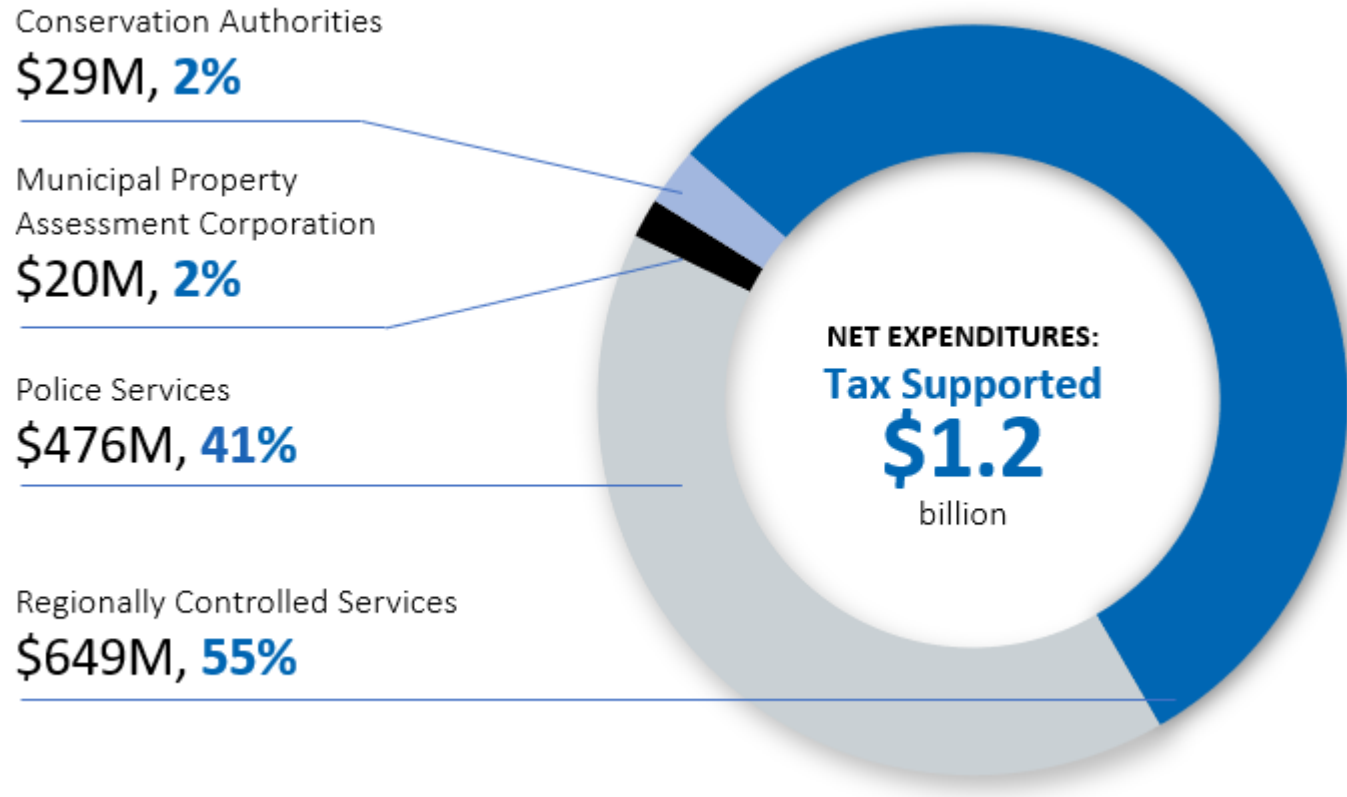
Service	Impact
Child Care	\$3.8M of 2021 funding reduction deferred to 2022 Budget; Staff will try to mitigate additional 2022 funding cut of \$3.7M
Public Health	Shifted to 60/40 cost share with the Province but funding will be frozen at 2018 level; Impact will be reflected in 2022 Budget
Paramedics	Service demand and inflation cost shared with the Province, but one-year funding lag;
Advocacy Required	Need Council's support to ensure fair share funding from the Province

Revenue Shortfall: Compared to pre-COVID Levels

(\$millions)	2022	2023	2024	2025	2030	2035	2040	2045	2050	2055
Region of Peel	(8.8)	(10.6)	(10.4)	(10.3)	(9.6)	(8.6)	(7.4)	(5.9)	(3.9)	(1.4)
City of Mississauga	(21.6)	(23.9)	(23.6)	(23.3)	(21.5)	(19.1)	(16.2)	(12.4)	(7.6)	(1.4)

- 35 Years before GTAA PILT return to pre-COVID levels under the current funding formula
- Cumulative revenue lost = \$240+ million
- **Removal of increase cap will help but not immediately**
- **ADVOCACY UNDERWAY**

Proportion of the 2021 Net Tax Budget



2022 Forecasted Increases

- **Police Services – 4.0%**
- **Conservation Authorities – 3.4%**
 - Credit Valley Conservation – 4.2%
 - Toronto Region and Conservation Authority – 2.6%
 - Halton Conservation – 4.1%

SERVICES



Long Term Care

Operationalize Seniors Health & Wellness Village



Paramedic Services

Meeting increased call volume from a growing population



Early Years and Child Care

Expansion of EarlyON



Housing Support

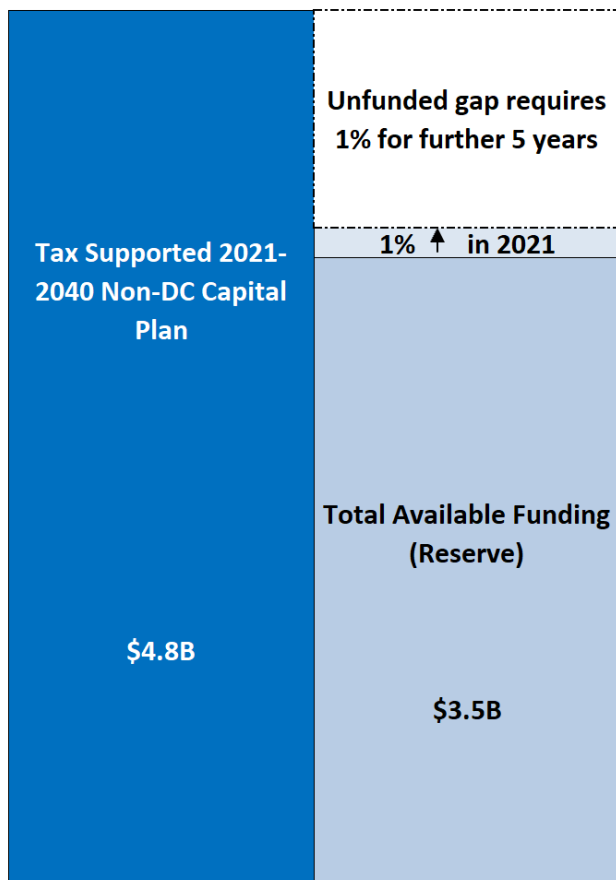
Increase affordable housing options



Waste Management

Increase waste diversion

\$1.3B - 20 Year Funding Shortfall Regionally Controlled Tax



Total Asset Value: \$3.7 B



NOTE: Projections are based on the current capital plan



- Base budget is the cost of delivering prior year service levels; includes inflation and economic adjustments
- CAO 1% Challenge
- Tax and Utility ratepayers benefit from Peel's disciplined approach to Continuous Improvement
 - ✓ Program evaluation
 - ✓ Business process management or LEAN
 - ✓ Service level reviews
 - ✓ Line-by-line reviews
 - ✓ Review of user fees
 - ✓ Alternate service delivery models
- Leverage lessons learned through COVID response
- Advocate for assistance from upper levels of government



Water and wastewater services for **4,000 new customers**

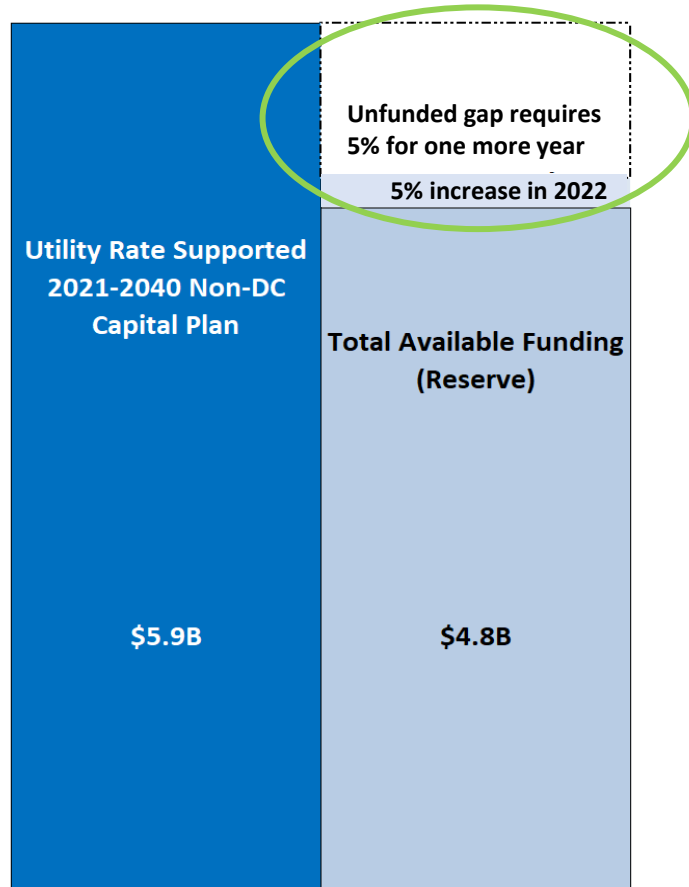
	2022 Forecast
Maintain Service Level	2.6%
Capital Infrastructure	5.0%

Average Utility Rate Increase*

7.6%

- Infrastructure Gap of \$1.1 billion
- Peel rates are 35% below GTA average

\$1.1B - 20 Year Funding Shortfall Utility Rate



Total Asset Value: \$26.2 B



NOTE: Projections are based on the current capital plan

- Still difficult to predict
- Assume pandemic will be over
- Residual impacts on services?
- No Financial Impact on the 2022 Budget
- Use any remaining COVID funding or rate stabilization reserves

COVID-19 Funding	(In \$Millions)
<ul style="list-style-type: none"> • Phase 1 Safe Restart allocation • Phase 2 Safe Restart allocation • Amount used for 2020 COVID pressures 	<p>\$27.3</p> <p>\$20.6</p> <p>(\$16.0)</p>
COVID-19 Funding remaining from 2020	\$30.9
2021 Provincial COVID Recovery (NEW)	\$24.7
Amount projected to be used for 2021	(\$39.7)
Potential Amount of COVID Funding for 2022 Budget pressures	\$15.9

Date	Event
June 24	Approach to the Development of 2022 Budget – Council Report External Agencies – Updates and Budget Pressures - Presentation
November 4	Budget document and presentations provided to Council
November 11	Continuous Improvement – Council Report
November 25	Asset Condition Scorecard – Council Report Overview and Status Update on the Reserves – Council Report
November 25	Corporate Overview and Commissioner Service Presentations
December 2	Presentation - External Agencies (Police Services and Conservation Authorities)
December 9, 16	Additional days reserved for Council Budget deliberations

QUESTIONS?