
REPORT TITLE: 2023 Operating and Capital Budget

FROM: Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

- 1. That the 2023 Operating Budget for Property Tax and Utility Rate Supported Services, at a total value of \$3,145,495,503 outlined in Appendix I of the Report of the Chief Financial Officer and Commissioner of Corporate Services, listed on the January 19, 2023 Regional Council Budget agenda titled “2023 Operating and Capital Budget”, be approved; and**
- 2. That the necessary by-law to apportion the \$1,323,622,367 net levy funding required, be presented for enactment; and**
- 3. That the 2023 Capital Budget for Property Tax and Utility Rate Supported Services totaling \$1,941,833,376 outlined in Appendix II to the subject report, be approved; and**
- 4. That the Consolidated 10 Year Capital Plan totaling \$14,520,673,604 outlined in Appendix III to the subject report, be approved, in principle, for planning purposes; and**
- 5. That the salary portion of the 2023 Regional Budget which includes a 2.5 per cent non-union salary band adjustment be approved; and**
- 6. That the Chief Financial Officer and Commissioner of Corporate Services be authorized to carry out any necessary technical adjustments in the 2023 Operating Budget, and that the necessary levy by-law be presented for enactment.**

REPORT HIGHLIGHTS

- A draft copy of the 2023 Budget document was distributed to Members of Regional Council on December 16, 2022.
- The Corporate Overview of the 2023 Operating and Capital Budget will be presented at the Regional Council Budget meeting on January 19, 2023.
- The proposed net tax levy impact of 6.7 per cent or average property tax impact of 2.8 per cent results in a property tax increase of \$144 to a residential home assessed at \$578,600 and a \$255 increase to a small business assessed at \$641,900.
- The proposed utility rate impact of 7.9 per cent results in an increase of \$58 for average residential consumption and a \$152 increase for average small business consumption.
- The annual debt carrying costs related to the borrowing for the proposed budget can be supported within the Region of Peel’s annual debt repayment limit as calculated in accordance with O. Reg. 403/02.

2023 Operating and Capital Budget

- All funds raised and collected in 2022 for a sinking fund have been deposited in said fund in accordance with section 424 of the *Municipal Act, 2001*, as amended.
- The necessary levy By-law to approve the budget will be brought forward to Council for enactment.

DISCUSSION

1. 2023 Budget Planning Process

The 2022 Budget included a 2023 net tax levy forecast increase of 5.0 per cent. Past practice has been for staff to establish a budget target to guide the development of the budget. However, given the uncertainty of the economy, volatile inflation rate, and the municipal election, no budget target was recommended to Council for the 2023 Budget.

In 2022, the pandemic continued to permeate every aspect of society. The Region of Peel's (Region) priorities focused on operations in keeping our community safe and in leading its second consecutive year in implementing the provincial mandate to mass vaccinate residents. Four hundred and thirty-five staff were still redeployed from services they normally deliver to meet the demands of their ongoing COVID-19 response and mass vaccination deliverables.

As the 'state of emergency' ended, the Region commenced a challenging process in transitioning back to 'normal' service delivery including catching up on backlogged work disrupted by COVID-19. Throughout the pandemic, rapid growth continued in Peel, and service levels need to be adjusted to accommodate this growth and continue to deliver the excellent customer service our community expects of us.

The impact on 2023 operations will ultimately depend on further waves of the pandemic and the continuing efforts of the recovery process. As a result, the Region and its external agencies have worked to develop a budget that reflects the increasing needs of the community. The Region of Peel continues to advocate to the Province to ensure that funding for mandated programs keep pace with the elevated inflation rates forecasted for 2023.

The development of the Region's 2023 Budget was guided by the 2015-2035 Strategic Plan. The Budget continues to invest in the three areas of focus of the Strategic Plan to build a healthy, safe and connected community that serves its residents today and strengthens a solid foundation for tomorrow.

The Region's budget, property tax and utility rate plans are developed according to principles which include fairness, sustainability and affordability, user pays where appropriate, value for money and managing assets. By using a risk-based approach to the budget, services that are able to sustain service levels under these principles appropriately saw no significant changes while services seeing increased demand require investments where these make sense and where they will advance service outcomes to Peel's community. Prior to considering assessing service demand and growth, cost containment measures were put in place at the beginning of the budget process resulting in savings of \$3.7 million for Region Controlled services.

2023 Operating and Capital Budget

The development of the Region's 2023 Budget was also guided by additional resource requirements for service level adjustments due to the pandemic. Significant issues and priorities addressed in Operating Budget include:

- Peel's Climate Emergency
- Continued challenges for racialized and marginalized communities
- COVID-19 pandemic continues to have an impact on Peel's community and economy
- Peel's housing market is unaffordable and unstable
- Public Safety continues to be a top concern for residents
- Barriers to accessing support remain for seniors and their caregivers
- Paramedic services are still recovering from the impacts of the pandemic
- Peel has some of the most expensive child care costs in Canada
- Community expectations around government service delivery are changing
- Complex economic and social factors present challenges to continuous improvement
- Continued pressure to fund infrastructure work for water/wastewater services
- Increased costs pose a challenge to maintaining Peel's infrastructure for both tax supported programs and water/wastewater services

In addition, the following capital projects have been included in the 2023 Capital Budget and the Capital Plan:

- Develop, purchase, expand, and maintain Peel Regional Police facilities including land (\$810 million)
- Water main replacement and construction (\$145 million)
- Expansion of Water Resource Recovery Facilities (\$140 million)
- Wastewater collection, main replacement and construction (\$121 million)
- Road construction, intersection improvements and active transportation (\$75 million)
- Pumping station expansion, rehabilitation and water treatment plant equipment replacement (\$71 million)
- Peel Living State of Good Repair (\$71 million)

It is important to highlight that the 2023 Budget was developed prior to the introduction by the Province of Ontario of *Bill 23 More Homes Built Faster Act, 2022* in October and approximately one month later, introduced the *Better Municipal Governance Act*. The full impacts of the two pieces of legislation are not yet known and, as such, the figures and estimates included in the propose budget do not reflect any financial impacts. The Region will continue to assess impacts to the implementation of the 2023 Budget and report back to Council as additional details and information are released by the Province.

In addition to the material directly related to the 2023 Budget, there are a number of reports that will be presented to Council on January 19, 2023, to help provided additional information and/or context to the budget. These reports include the Service Level Improvement report which provides details of the continuous improvement the corporation has achieved in the past year, an infrastructure scorecard that informs Council of the state of good repair of Peel's assets and a Reserve report that provides an overview and status of the Region's key reserves and reserve funds. There is also a report proposing the conversion of staff in Housing Support from temporary status to permanent status to sustain service levels.

2023 Operating and Capital Budget

Presented below are the key timelines leading to the development of the proposed budget.

Activity	Date
Approach to the Development of the 2023 Budget – Council Report	June 23, 2022
Peel Regional Police Presentations on Progress Report and Future Outlook	July 7, 2022
Improvements in Service Delivery – Council Report	January 19, 2023
The 2022 Infrastructure Status and Outlook – Council Report	January 19, 2023
2022 Overview and Update on the Status of Reserves – Council Report	January 19, 2023
2023 Conversion of External Funded Housing Positions to Permanent Status- Council Report	January 19, 2023
2023 Fees and Charges – Council Report	January 19, 2023
2023 Budget Presentations	
• Regional Budget Corporate Overview Presentation	January 19, 2023
• Police Services Budget Presentations	January 19, 2023
• Regional Services Budget Presentations	January 26, 2023
• Conservation Authorities Budget Presentations	February 2, 2023
• Additional Budget deliberation	February 9, 2023

The 2023 Budget deliberations for Council approval will begin with the Regional Budget Corporate Overview presentation on January 19, 2023. An appropriate notice with respect to the intention to adopt a budget was prepared and published in four local newspapers on January 5, 2023, as a minimum of 10 days before the final adoption of the budget and posted on the Region’s web site is required, meeting the Region’s notice requirements.

2. 2023 Budget Overview

As COVID-19 has continued to linger with an economic fallout, the Region will continue to manage its overall recovery response and deliver Health Service’s specific programs whilst maintaining core services, protecting the community and respecting the taxpayer. In addition, staff will continue to assess and monitor the implications of two newly introduced legislations.

The 2023 Budget focuses Regional services and resources towards an increased and measurable impact on the community. The proposed 2023 Operating Budget is outlined in Appendix I to this report and provides an overview of each of Peel’s service increases.

The annual impact of the proposed 2023 budget increase is as follows:

	Average Residential	Average Small Business
Property Tax Impact of 2.8% ¹	\$144	\$255
Utility Rate Impact of 7.9% ²	\$58	\$152
Total Impact	\$202	\$407

¹ Home assessed by the Municipal Property Assessment Corporation at \$578,600, and small business with an assessed value of \$641,900

² Residential consumptions of 290m³, average small business consumption of 695m³

After incorporating these increases, a residential homeowner with an assessed value of \$578,600 will pay a Regional tax of \$2,309 and an annual water bill of \$896.

The 2023 Capital Budget totals \$1,941.8 million, of which \$641.4 million (33 per cent) is for Utility Rate Supported Services and \$1,300.4 million (67 per cent) is for Tax Supported

2023 Operating and Capital Budget

Services. Of the total Tax Supported Budget, 65 per cent (\$848.4 million) is attributed to Police Services. Refer to Appendix II of this report.

In addition to the one-year Capital Budget, the Region prepares a nine-year forecast, which is approved by Council in principle. The Region's 10-year Capital Plan amounts to \$14.5 billion with \$6.2 billion for Tax Supported Services and \$8.3 billion for Utility Rate Supported Services. Refer to Appendix III of this report.

3. Business Plan and Budget

The 2023 Budget was prepared ensuring the long-term sustainability of its services. The Region is committed to producing a budget that is fiscally responsible and demonstrates both accountability and transparency in budget reporting.

The development of the 2023 Budget document continues to be based on guidelines of the Government Finance Officers Association of the United States and Canada (GFOA) for effective budget presentation. The 2023 Budget document includes an Executive Summary that provides an overview of the entire budget, a Regional Budget Corporate Overview with both Operating and Capital Summaries, and detailed Service Business Plans for all Regionally Controlled Services. Service Business Plans for Regionally Financed External Agencies have also been included.

The 2023 Operating Budget Summary is attached as Appendix I to this report. The 2023 Capital Budget Summary and the 2023 to 2032 Ten Year Capital plan is attached as Appendix II and III respectively. Published Business Plan and Budget Books were dispatched to Regional Councillors on December 16, 2022. The Budget Book and additional corresponding information were available on the Region of Peel web-site as of January 5, 2023.

The 2023 Budget continues to place focus and emphasis on services and service outcomes as opposed to administrative structure and strives to streamline how the information is presented to both Council and the public.

The Budget document includes discussions on:

- How the 2023 budget is aligned to the Region's Strategic Plan including detailed budgets by service areas
- Major trends Peel is facing
- Service outcomes to meet community needs
- Key investments proposed in 2023 to serve Peel's residents better
- Key budget assumptions and risks
- A high-level forecast for outlook years

4. Debt Financing

Historically, the primary use of debt financing by the Region is to manage the mismatch in timing between revenue collection and expenditures for large utility expansions required to accommodate growth in Peel: however, debt is expected to be used to finance a number of non-growth-related capital priorities. Specifically, in addition to debt previously approved for the Housing Master Plan, Peel Regional Police are expected to require material capital spending based on the 10-year Capital Plan, with initial debt requirement forecasts of approximately \$700 million.

2023 Operating and Capital Budget

The majority of the existing debt will be repaid with Development Charges (DC) revenues and a smaller portion through property taxes. The annual debt carrying costs related to the borrowing for the proposed budget can be supported within the Region's annual debt repayment limit estimated at approximately \$484 million (per 2021 Financial Information Return) and as calculated in accordance with O. Reg. 403/02. Based on current debt outstanding the Region's estimated annual debt payment requirements are approximately \$144 million.

To manage the DC cash flow, and to provide additional flexibility, the Region may be required to issue between \$150 million to \$200 million of DC related debt in 2023. Debt is also expected to be utilized in 2023 as part of the Housing Master Plan – actual amounts will depend on the progression of projects under the Housing Master Plan. Finally, debt issuance related to Peel Regional Police capital projects is expected to be issued beginning in 2024.

In accordance with the *Municipal Act, 2001*, as amended, and the Region's Debt Management Policy, the 2023 budget includes all required contributions to sinking funds under existing debenture by-laws issued. The Treasurer advises that the sinking fund contribution requirements for 2023 are as follows:

Funding Source	Amount Budgeted (2023)
Development Charges	\$ 46,598,614
Property Taxes	\$ 1,197, 569
Caledon Recovery	\$ 7,715
Total	\$ 47,803,898

Note: These amounts include sinking fund contributions for Coleraine Drive transferred to the Region of Peel from the Town of Caledon.

Also, in accordance with the *Municipal Act, 2001*, as amended, and the Region's Debt Management Policy, the Treasurer confirms that all funds required to be deposited into sinking funds will be raised and collected by year end 2022. The full accounting of the funds will be provided in the annual Treasury Report to Regional Council and annually as separate audited financial statements to the Audit and Risk Committee.

5. Disclosure of Unfunded Liabilities

In 2009, disclosure requirements were put in place by O. Reg. 284/09. This has resulted in the Region being required to report on additional liabilities related to post-employment benefits and amortization.

- a) Post-Employment Benefits (Peel Regional Police)
The 2023 Budget fully funds the current year retiree benefit payments totaling \$5.0 million, in addition the 2023 budget partially funds the accrued post-retirement benefit liability related to future payments when members retire.
- b) Tangible Capital Asset Liability
The proposed 2023 annual reserve contributions for both Tax and Utility Rate supported Services exceed the respective estimated 2022 amortization expense for Tangible Capital Assets estimated at \$314 million.

2023 Operating and Capital Budget

6. Notional Tax Adjustment

The 2023 Operating Budget includes a projected assessment growth of 0.96 per cent, which includes a notional property tax rate technical adjustment in the amount of \$1,886,122 as determined using the Online Property Tax Analysis (OPTA) data as of October 31, 2022. The finalized property tax rate calculation adjustment will be determined in early 2023, and any additional assessment growth related revenue will be included as a technical adjustment in the Region's 2023 Final Levy By-law report to Council in April 2023.

7. Plan for the 2024 Budget

Consistent with the principle of "Respect for the Taxpayer" within the Long Term Financial Planning Strategy, net tax levy increases are in line with overall blended inflation; the Canadian Price Index (CPI) for operating costs and the Average Non-Residential Construction Price Index (NRCPI) to recognize Peel's infrastructure intensive services.

The forecasted net tax levy increase for 2024 is 6.5 per cent which is higher than the upper end of the Bank of Canada inflation target. This increase includes the forecasted increase for the Peel Regional Police currently estimated at 10.0 per cent and the \$7.2 million impact of the decrease in Payment in lieu of Taxes (PILTs) revenue from the Greater Toronto Airports Authority deferred from 2023. The forecast was developed using global and service specific assumptions, i.e., service demand, labour costs, impact of inflation on contracts, operating impact of new capital, impact of Provincial funding changes, and previously approved Council tax strategies. The average net tax levy increase for the outlook years (2024 to 2026) is 6.2 per cent assuming assessment growth of 0.96 per cent. The outlook years also reflect an average forecasted increase for Peel Regional Police of 10.2 per cent.

CONCLUSION

The proposed 2023 Budget for the Region advances Council's 20-year Strategic Plan in a fiscally responsible manner. The proposed budget represents a responsible balance between meeting community needs and maintaining long term financial sustainability, while minimizing the impact on Peel's tax and rate payers.

APPENDICES

- Appendix I – 2023 Operating Budget Summary
- Appendix II – 2023 Capital Budget – Sources of Financing
- Appendix III – 2023 to 2032 Capital Plan – Sources of Financing



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