
REPORT TITLE: 2025 Operating and Capital Budget

FROM: Davinder Valeri, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

- 1. That the 2025 Operating Budget for Property Tax and Utility Rate Supported Services, at a total value of \$3,908,891,954 outlined in Appendix I of the report of the Chief Financial Officer and Commissioner of Corporate Services, listed on the November 21, 2024 Regional Council Budget agenda titled “2025 Operating and Capital Budget”, be approved; and**
- 2. That the necessary by-law to apportion the \$1,681,449,852 net tax levy funding required, be presented for enactment; and**
- 3. That the 2025 Capital Budget for Property Tax and Utility Rate Supported Services totaling \$2,295,401,422 outlined in Appendix II to the subject report, be approved; and**
- 4. That the sixteen Water and Wastewater Capital projects totaling \$745,600,000 detailed in Appendix III to the subject report, be approved for years 2026-2034; and**
- 5. That the Consolidated 10 Year Capital Plan totaling \$23,461,756,158 outlined in Appendix IV to the subject report, be approved, in principle, for planning purposes; and**
- 6. That the salary portion of the 2025 Regional Budget which includes a 3.5 per cent non-union salary band adjustment be approved; and**
- 7. That the Chief Financial Officer and Commissioner of Corporate Services be authorized to carry out any necessary technical adjustments in the 2025 Operating Budget, and that the necessary levy by-law be presented for enactment.**

REPORT HIGHLIGHTS

- The proposed 2025 Budget was distributed to Members of Regional Council on November 6, 2024, for their review and was made available on the Region’s website on November 7, 2024.
- The proposed net tax levy increase of 12.5 per cent or average property tax increase of 5.5 per cent results in an average property tax increase of \$321 to a residential home assessed at \$581,200 and a \$564 increase to a small business assessed at \$641,900.

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- The proposed average property tax increase of 5.5 percent includes 4.1 per cent for Peel Regional Police, 1.3 per cent for Regionally controlled services and 0.1 per cent for other external agencies.
 - The proposed utility rate increase of 5.9 per cent results in an increase of \$62 for average residential consumption and a \$118 increase for average small business consumption.
 - The annual principal and interest costs related to the current and proposed 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.
 - The proposed 2025 Capital Budget will put additional pressure on Peel's future debt capacity and financial flexibility.
 - The Treasurer confirms that all funds required to be deposited into sinking funds will be contributed by year end 2024, in accordance with the *Municipal Act, 2001*, as amended.
 - The necessary levy By-law to approve the budget will be brought forward to Council for enactment.
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DISCUSSION

1. Budget Planning Process

Peel implemented its planning process in early 2024, focusing on business planning for the 2025 budget year and the outlook years (2026-2028). The development of the Region's Budget is guided by the 2015-2035 Strategic Plan and the principles for approaching the 2025 budget as approved by Council through the June 13, 2024, report titled "Approach to the Development of the 2025 Budget" (Council Resolution # 2024-452).

The annual Budget names and provides available resources to advance priorities identified by Regional Council through its vision of a Community for Life and to enable the policy decisions Council has made prior to the budget.

As in prior years, the planning process began with holistic view of major trends and risks and their respective impacts on Peel's services. These trends and risks included:

- Economic uncertainty and market volatility,
- Income uncertainty and affordability challenges for residents and businesses,
- Provincial funding changes,
- Changing legislation and regulations,
- Evolving technology, and
- Aging infrastructure.

Business plans have been developed for each service to support Council's deliberation of the 2025 Budget. Each service business plan includes an overview of the service, outlines the challenges the service is facing, and outlines the direction and plans of the service over the next four years. The plan outlines how each service plan will enhance service delivery and efficiency through technology and process improvement.

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Peel's budget reflects the impact of inflation, external funding shortfalls, cost containment measures, providing service to a growing population and making strategic deliberate investments in the following key areas:

- Building housing enabling infrastructure.
- Enhancing community safety and well-being through health services.
- Keeping Peel's infrastructure assets in good repair.
- Advancing the Climate Change Masterplan.
- Promoting Diversity, Equity and Inclusion.
- Investing in modern and cyber-secure technology.

Key investments in capital projects have also been included in the 2025 Capital Budget and for endorsement through the 2025 – 2034 Ten Year Capital Plan. Highlights include:

- Wastewater collection main replacement and construction (\$615 million)
- Water main replacement and construction (\$558 million)
- Expansion of Water Resource Recovery Facilities (\$169 million)
- Road construction, intersection improvements and active transportation (\$168 million)
- Condition assessment and rehabilitation program (\$90 million)
- Sanitary sewer installation to sustain growth (\$78 million)
- Develop, purchase, expand, and maintain Peel Regional Police facilities including land (\$69 million)
- Peel Living State of Good Repair (\$61 million)

The 2025 Budget, and ultimately property tax and utility rate plans, reflect the service demand pressures and required investments. These investments have been assessed through Peel's Long Term Financial Planning Strategy whose principles include fairness, sustainability and affordability, user pays where appropriate, value for money and managing assets. These principles support a holistic risk-based approach to the budget to ensure that the proposed investments address urgent, and priority needs in the community in a financially sustainable manner. Prior to considering additional investments for service demand and growth, cost containment measures were implemented at the beginning of the budget process, resulting in savings of \$9.8 million for Regionally Controlled services to ensure value for money.

In addition to this report being presented to Council on November 21, 2024, there are four more reports that are also being submitted on this same day. These reports provide further information and/or context to the budget and are listed in the table below.

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Presented below are the key timelines leading to the development of the proposed 2025 Budget:

Action	Date
Develop preliminary proposed Budget and Business Plans based on the direction of the Executive Leadership Team (ELT)	March/April/May 2024
Approach to the Development of the 2025 Budget – Council Report (Council Resolution #2024-452)	June 13, 2024
ELT Budget Reviews <ul style="list-style-type: none"> • Capital • Operating and Capital 	June 18, 2024 September 4, 2024
2025 Budget Reports <ul style="list-style-type: none"> • 2025 Operating and Capital Budget • 2025 Fees and Charges • 2024 Overview and Update on the Status of Reserves • Improvements in Service Delivery 2024 • Enterprise Asset Management Program Update Fall 2024 	November 21, 2024
2025 Budget Presentations <ul style="list-style-type: none"> • Peel Regional Police • Corporate Overview • Regional Services (six are proposed) • Conservation Authorities (two are proposed) • Additional Budget deliberation (if required) 	November 21, 2024 November 21, 2024 November 28, 2024 December 5, 2024 December 12, 2024

An appropriate notice with respect to the intention to adopt a budget was prepared and published in the Toronto Star, the Caledon Citizen, on the Region's corporate social media channels, and posted on the Region's website on November 7, 2024, a minimum of 10 days before the final adoption of the budget, meeting the Region's notice requirements.

2. Operating Budget Overview

The 2025 Budget focuses Peel's services and resources towards an increased and measurable impact on the community. The proposed 2025 Operating Budget is outlined in Appendix I to this report and provides an overview of each of Peel's service increases.

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The annual impact of the proposed 2025 budget increase is as follows:

Property Tax Supported	Average Residential	Average Small Business
External Agencies - Property Tax Increase of 4.2% ¹	\$248	\$436
Regionally Controlled - Property Tax Increase of 1.3% ¹	\$73	\$128
Total Property Tax Increase of 5.5%	\$321	\$564

¹ Assumed weighted average municipal portion of tax bill is approximately 44 per cent. Home assessed by the Municipal Property Assessment Corporation at \$581,400, and small business with an assessed value of \$641,900.

The total property tax increase is 5.5 per cent shown in the table above, 4.1 per cent of the 4.2 per cent increase for external agencies is attributed to Peel Regional Police.

	Average Residential	Average Small Business
Utility Rate Impact of 5.9% ²	\$62	\$118

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

After incorporating these increases, a residential homeowner with an assessed value of \$581,200 will pay on average an annual Regional tax of \$2,892, and an annual water bill of \$1,036.

3. Capital Budget Overview

The 2025 Capital Budget totals \$2,295.4 million, of which \$1,704.2 million (74 per cent) is for Utility Rate Supported Services and \$591.2 million (26 per cent) is for Tax Supported Services. Of the total Tax Supported Budget, 26 per cent (\$155.7 million) is attributed to Peel Regional Police. Refer to Appendix II of this report.

a. Key Water and Wastewater Capital projects budgeted on a cashflow basis

Due to the pressures on the Utility Capital Reserve, a strategic decision was made to budget key water and wastewater capital projects on a cashflow basis rather than approving the total additional required funds in the year 2025. Distributing the need over multiple years for these 16 projects will alleviate the short-term pressures on the utility capital reserve whilst allowing for these projects to still be approved by Council. As a result, staff recommend that Council approve the total additional funds required for the 16 projects detailed in Appendix III of this report.

b. Capital 10-year Plan

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 \$23.4 billion with \$17.3 billion for Utility Rate Supported Services and \$6.1 billion for Tax Supported Services. Refer to Appendix IV of this report.

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4. Business Plan and Budget

The Region is committed to producing a budget that is fiscally responsible and demonstrates both accountability and transparency in budget reporting.

The Budget document includes discussions on:

- How the 2025 budget is aligned to the Region's Strategic Plan including detailed budgets by service areas.
- Major trends facing Peel.
- Service outcomes to meet community needs.
- Key investments proposed in 2025 to better serve Peel's residents.
- Key budget assumptions and risks.
- A high-level forecast for three outlook years (2026-2028).

To support Council's deliberation of the 2025 Budget, service business plans have been developed for each service that provide an overview of the service, the pressures facing the service, the direction and plans over the next four years including how to improve service delivery and efficiency through technology and process improvement. The business plan and budget also include two-page budget requests for all new proposed budget initiatives to explain what is being requested, why it is being requested and what impact the budget request will have on the service outcome.

5. Debt Financing

Debt financing is generally used to support growth related and tax funded capital projects, where appropriate, to support a growing community. Through recent budgets, Council has approved the use of debt to finance a portion of the Peel Community Housing Development Program (PCHDP) and Peel Regional Police (PRP) capital plans, in addition to financing Development Charges (DC) capital projects where there is a timing mismatch between DC collections and expenditures. No new tax supported debt has been requested for Regionally Controlled programs as part of the 2025 Budget.

To manage the DC cash flow, and to provide additional flexibility, the Region may be required to issue between \$400 million to \$500 million of DC related debt in 2025, depending on the pace of collections and capital expenditures. This is in addition to previously approved debt financing to be required in 2025 to support the PRP capital program and PCHDP. Actual debt issuance in 2025 for PCHDP and PRP will depend on the actual pace of capital expenditures.

As at October 31, 2024, the Region has approximately \$1.9 billion gross debt outstanding, with net debt outstanding of approximately \$1.4 billion. These figures are inclusive of the recent (October 29, 2024) debenture issuance of \$345.3 million for the Region. The majority of the existing debt will be repaid with DC collections and a smaller portion through property taxes. Based on current debt outstanding, the Region's estimated annual principal and interest requirements are approximately \$139 million and can be supported within the Region's annual repayment limit (ARL) estimated at approximately \$542 million (per 2023 Financial Information Return), calculated in accordance with O. Reg. 403/02.

Annual principal and interest costs related to the borrowing for the proposed budget and plan is forecasted to significantly increase the current ARL percentage of approximately 6.1 per cent (i.e. debt service costs divided by net revenues) to approximately 20 per cent by

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the end of the 10-year horizon, approaching the 25 per cent limit under the Municipal Act, 2001. This forecast level of debt is significantly greater than the level the Region has had historically, resulting in the ARL more than doubling from current levels, impacting the Region's future ability to absorb financial pressures and/or shocks. A growing portion of forecasted debt issuance is required to be supported by the tax base through several years of levy increases. Increasing debt levels will pressure the Region's triple A credit rating.

In accordance with the Municipal Act, 2001, as amended, and the Region's Debt Management Policy, the 2025 budget includes all required contributions to sinking funds under existing debenture by-laws issued.

The Treasurer advises that the sinking fund contribution requirements for 2025 are as follows:

Funding Source	Amount Budgeted (2025)
Development Charges	\$ 46,598,614
Property Taxes	\$ 1,205,284
Total	\$ 47,803,898

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 contributed by year end 2024. 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.

6. 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 2025 Budget fully funds the current year retiree benefit payments totaling \$6.6 million. In addition, the 2025 budget partially funds the accrued post-retirement benefit liability related to future payments when members retire.

b) Tangible Capital Asset Liability

The proposed 2025 annual reserve contributions for both Tax and Utility Rate supported Services exceed the respective estimated 2024 amortization expense for Tangible Capital Assets estimated at \$328 million.

7. Notional Tax Adjustment

The 2025 Operating Budget includes a projected assessment growth of 0.9 per cent, which includes a notional property tax rate technical adjustment in the amount of approximately \$0.97 million as determined using the Online Property Tax Analysis (OPTA) data as of November 4, 2024. The finalized property tax rate calculation adjustment will be determined in early 2025, and any additional assessment growth related revenue will be included as a technical adjustment in the Region's 2025 Final Levy By-law report to Council in April 2025.

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8. Plan for the 2025 Budget

Consistent with the principle of “Respect for the Taxpayer” within the Long-Term Financial Planning Strategy, net tax levy increases for maintaining the prior year’s service levels 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 budgeted net tax levy increase for 2025 is 12.5 per cent which is higher than the upper end of the Bank of Canada inflation target. This increase includes the proposed operating budget needed for Peel Regional Police at 9.3 per cent. This budget 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 (2026 to 2028) is 9.9 per cent assuming assessment growth of 0.9 per cent. The outlook years also reflect an average forecasted increase for Peel Regional Police of 14.2 per cent.

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 have reviewed regional services for cost containment options that have minimal impact on service delivery with significant risks being highlighted to Council. As in prior years, staff have continued to seek efficiencies, a practice particularly needed in this current economic environment. In addition, the net tax levy forecast reflects what is known at the time of the writing of the report and it does not reflect pressures from policy changes, or any legislation changes that may go into effect after this report.

In addition, although the inflation rate is expected to slow, prices are expected to remain elevated given high inflation rates over the past two years. This will keep the operating budget, capital budget, and capital plan costs elevated. At this point, staff developed the budget using a 2.5 per cent inflation assumption on the operating side for one year then 2.0 per cent ongoing for years afterwards. On the capital side, 4.0 per cent was used for one year, then 3.0 per cent ongoing for years afterwards.

There is increased pressure on Peel’s debt burden resulting from the forecast capital spending for 2025 and capital needs for years 2026 to 2034. Further, DC collections can experience volatility resulting from economic activity. As a result, Peel’s financial flexibility and sustainability will remain under pressure for the next several years, putting downward pressure on the Region’s credit rating in the coming years.

BILL 112 RISKS AND IMPLICATIONS

On June 8, 2023, the Province passed Bill 112, the *Hazel McCallion Act (Peel Dissolution)*, 2023, which was initially intended to dissolve the Region of Peel and provided for a Transition Board to make recommendations to the province on how to implement the restructuring. On June 6, 2024, Bill 185 took effect, amending Bill 112 and reversing the decision to dissolve the Region of Peel. Bill 185 changed the name of the legislation to the *Hazel McCallion Act (Peel Restructuring)*, 2023 and recalibrated the Transition Board’s mandate to focus on making recommendations on land use planning; water and wastewater; storm water; highways; and waste management. Final details of the Transition Board’s recommendations, any associated

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provincial decision and impacts on Peel services are not known at this time and will be addressed in future reporting to Regional Council.

The 2025 Budget also does not reflect any incremental costs related to the transition of Peel under Bill 112 *Hazel McCallion Act (Peel Dissolution)*, 2023. In 2024, additional costs of \$5.8 million have already been incurred (as of August 31, 2024) including \$0.5 million for Transition Board costs up to March 15, 2024.

CONCLUSION

The services provided by the Region of Peel touch the lives of the residents of the three local municipalities in essential ways and contribute to the ability of their residents, businesses and communities to thrive. Peel's services are focused on positive outcomes for more than approximately 1.53 million residents and approximately 200,000 businesses.

With 2023 representing a year where the Peel community began its recovery, we are now faced with multiple immediate social, economic and legislative challenges that have put additional demands on housing affordability, increased pressure to enable growth for a growing population and more focus on public safety and well-being.

This budget responds to these pressures with important strategic investments in community housing, infrastructure growth, public safety, paramedics, and seniors' services. In addition, to addressing the social impact of these challenges, Peel is continuing to invest in its commitment to fighting climate change, supporting diversity, equity and inclusion and many other socially necessary programs.

By investing in programs and infrastructure that acknowledge these issues and our work to address them, we uphold our Regional values of Care and Support, Transparency, Leadership, Collaboration and Inclusion.

The Operating Budget advances the Strategic Plan and addresses the priority needs of the community while ensuring the long-term sustainability of the services that both residents and businesses have come to rely on.

The Capital Budget and the Ten-Year Capital Plan demonstrate the long-term commitment by Peel to build homes faster by investing in enabling infrastructure, and to ensure responsible and necessary maintenance of Regional infrastructure, which assists in delivering the services our citizens need and expect.

The 2025 Budget for the Region of Peel advances Council's 20-year Strategic Plan in a fiscally responsible manner that provides the resources to meet priority community needs, managing the risks to operations under a period of heightened inflation and in a period of rapidly changing legislation.

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APPENDICES

Appendix I – 2025 Operating Budget Summary

Appendix II – 2025 Capital Budget – Sources of Financing

Appendix III – Key Water and Wastewater Capital Projects Budgeted on a Cashflow Basis

Appendix IV– 2025 to 2034 Capital Plan – Sources of Financing



Davinder Valeri, Chief Financial Officer and Commissioner of Corporate Services

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