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REPORT
Meeting Date: 2020-10-22
Regional Council

REPORT TITLE: **Update on the Development of the 2021 Budget**

FROM: Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That, to decrease pressure on the 2021 operating budget and maintain financial flexibility, the debt financing for the Seniors Health and Wellness Village, estimated at $16.7 million, be replaced with funds from the Tax Rate Stabilization Reserve;

And further, that the Regional Chair, on behalf of Regional Council, write a letter to the Province of Ontario in support of the City of Mississauga's advocacy efforts to remove the five per cent cap on the Payments In Lieu of Taxes (PILT) from the Greater Toronto Airport Authority which has been sought for decades to avoid the type of dramatic fall in PILTS that is currently happening.

REPORT HIGHLIGHTS

- The 2020 Budget included a 2021 net tax levy forecast increase of 4.3 per cent.
- On May 14, 2020, Council directed the development of the 2021 Budget without a set target recognizing that the Provincial 2020 Budget will not be announced until November 2020 with Provincial funding representing 25 per cent of annual revenue.
- Throughout the budget development process staff are assessing opportunities to mitigate budget pressures.
- Staff recommend replacing debt financing with rate stabilization reserves for the Seniors Health and Wellness Village to eliminate the requirement for annual debt payments.
- While there is still much work to be done, the current estimated net tax levy increase for the proposed 2021 Budget is 3.7 per cent.
- Key drivers for tax supported programs include ongoing changes to provincial funding, policing and enabling Council priorities such as the Community Safety and Well-Being program.
- The current estimated utility rate increase for the proposed 2021 Budget is 7.4 per cent which includes 5.0 per cent for maintaining the state of good repair of the assets
- Additional temporary costs related to COVID will be incorporated into the proposed budget but through the use of Phase 1 COVID funding (Safe Restart) and rate stabilization reserves as required.
- As the allocation of Phase 1 COVID funding exceeds the projected 2020 deficit, the Region will not require Phase 2 funding.
- The three-year forecast (2022 – 2024) shows tax pressures from the opening of new planned facilities to meet service needs and from the decrease in payments-in-lieu of taxes from Pearson Airport.

- The provincial budget announcement in November may change the current estimates.
- As reported to Council on July 23, 2020, the capital plan is being reviewed in light of reduced growth due to the current economic climate.
- Staff will continue to develop the 2021 Budget with focus on balancing the needs of the community with affordability.

DISCUSSION

1. Background

On May 14, 2020, staff provided a report on the approach to the development of the 2021 Budget. The 2020 Budget included a 2021 net tax levy forecast increase of 4.3 per cent. The proposed timelines for budget deliberations, as per Council direction, were amended to January 28, 2021 from November 15, 2020. Similar to the previous year, no budget target was directed due to the delay in the announcement of the provincial budget until November 2020 and the unknown impact of the COVID-19 pandemic on the economy. Provincial funding accounts for 25 per cent of the Region of Peel's annual revenue.

2. Discussion

While a number of services are still in the response mode for COVID-19 such as long-term care, public health and paramedics, the Region of Peel, as a whole, is shifting towards recovery and looking ahead into the operations for the next budget year.

The COVID-19 pandemic has had and will likely continue to have significant service and financial impacts on Peel's operations for 2020. Impacts for the 2021 fiscal year and consequently the 2021 Budget will greatly depend on the severity and duration of the pandemic although there will likely be some temporary impacts for services such as long-term care and public health.

a) Identifying Savings to Reduce Budget Pressure

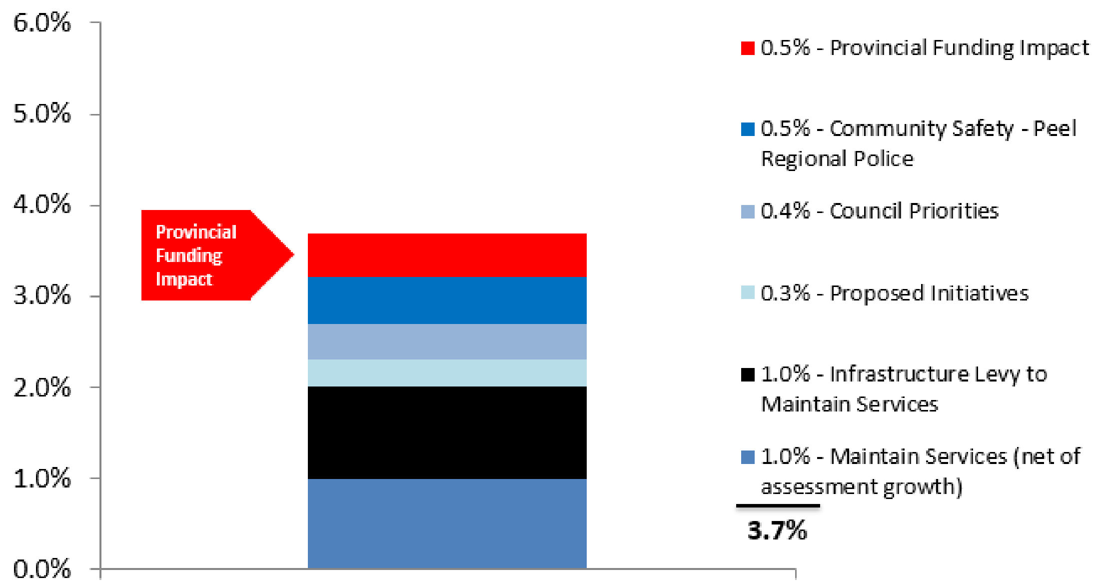
Looking for additional opportunities to mitigate costs and identifying savings have been a priority in 2020 to help offset the increased costs and decreased revenue driven by the pandemic. For the 2021 Budget, detailed reviews of regionally controlled services and processes using LEAN and other approaches have done in addition to line-by-line expenditures, revenues and provincial funding models have been conducted over the past several months to minimize the financial pressure from increased service demand. Staff will report on Peel's continuous improvement efforts in advance of the 2021 Budget.

One opportunity, which has been recommended in this report, is to replace the $16.7 million of debt financing for the Seniors Health and Wellness Village with funding from the Tax Rate stabilization reserve to eliminate the requirement for annual debt payments. This will reduce the annual operating budget by $563 thousand and help retain longer term financial flexibility.

b) Tax Supported Programs

Key drivers for tax supported programs include ongoing changes to provincial funding programs in Human Services, phasing in the operating costs of new facilities like the Seniors Health and Wellness Village and enabling Council priorities such as community safety policing and the Community Safety and Well-Being program. The proposed increase also reflects a one per cent infrastructure levy. As presented to Council through the "Overview and Update on Status of the Reserves" report on November 14, 2019, the forecasted capital reserve shortfall for Tax Supported programs is $1.8 billion over the next 20 years.

Chart 1: Forecasted 2021 Net Tax Levy Impact



Development of the 2021 Budget will continue to be refined including assessing provincial revenue and identifying cost mitigation strategies. The current estimated net tax levy increase for the proposed 2021 Budget is 3.7 per cent.

c) Utility Rate Supported Programs

The utility rate supported programs (water and wastewater) are undergoing the same level of rigour as the tax supported programs i.e. reviewing the services and costs to identify opportunities to minimize the increase. Key drivers for the utility rate program for 2021 include increases in electricity costs and decreases in the Industrial Commercial Institutional water consumption.

The Utility rate supported program is infrastructure intensive and 87 per cent of the costs are fixed. The current estimated 2021 increase for the utility rate program is 7.4 per cent including 5.0 per cent to support the state of good repair of its capital assets. As presented to Council through the "Overview and Update on Status of the Reserves" report on November 14, 2019, the forecasted capital reserve shortfall for Utility Rate supported programs is $1.4 billion over the next 20 years.

d) External Agencies

The external agencies (Peel Regional Police, Ontario Provincial Police, Credit Valley Conservation, Toronto and Regional Conservation Authority and Conservation Halton) represent 45 per cent of the total net tax levy. The current project 3.7 per cent includes available information from externally financed organizations. In order to minimize the 2021 Budget increase, support will be required from the boards of each organization.

e) 2022 and Beyond

i) Tax Supported Programs (2022 – 2024)

Looking beyond 2021, additional pressures to the net tax levy are anticipated. 2022 is currently forecast at 4.9 per cent increase. There is limited flexibility to defer budget pressures from 2021 to 2022 or beyond.

Table 1: Three Year Operating Forecast for Tax Supported Programs

	2022	2023	2024
Regionally Controlled Services	4.9%	3.4%	3.0%

As a result of the COVID pandemic, international travel has significantly declined. The number of passengers at Pearson Airport have declined 60 per cent compared to last year. This will have a significant impact on Peel's financial operations as over $11 million in revenue (PILTs) is received annually from the Greater Toronto Airport Authority. This helps to mitigate pressure on the property tax base. However, as this revenue is driven by the number of passengers, Peel is forecasting a decrease of over $6 million in 2022. There is no impact to 2021 as there is a two-year lag in the revenue. The recovery of the PILTs to current previous levels may take many years especially with the current funding formula which has a cap on the increase of 5 per cent per year. This will mean that revenues will not return to 2021 levels until beyond 2030. The decrease in PILTs also has a significant financial impact to the City of Mississauga.

Staff recommend that the Regional Chair send a letter to the Province on behalf of the Regional of Peel supporting the City of Mississauga's advocacy efforts with respect to removing the cap on annual revenue increases within the Greater Toronto Airport Authority funding formula as outlined below:

From the City of Mississauga's Budget Committee meeting from June 24th:

> *"Also noted will be the continued request to the Province of Ontario to remove the five per cent cap on the PILT from the GTAA which has been sought for decades to avoid the type of dramatic fall in PILTS that is currently happening. While the City understands and accepts its role to share in the difficult times, the five per cent per annum cap on any increases prevents the City from rebounding in the same way the GTAA will."*

In addition to the pressure from the decreased PILTs, the continued phase in of the operating expenditures for the Seniors Health and Wellness Village (2022), the opening of the new anaerobic digestion facility (2024) in Waste Management and new paramedic reporting station (2024) will put increased pressure on the overall net tax levy.

ii) Utility Rate Supported Programs (2022 – 2024)

Utility Rate supported services, water and wastewater, are forecasting an average increase of 6.1 per cent including 5.0 per cent to maintain the state of good repair of the infrastructure.

Table 2: Three Year Operating Forecast for Tax Supported Programs

	2022	2023	2024
Utility Rate Supported Services	6.4%	6.1%	5.8%

The overall financing strategy for the utility rate program is being developed to ensure the longer term sustainability of the water and wastewater services. The strategy will include a review of the utility rate structure and may impact the forecasted changes.

3. 2021 Capital Budget and Ten Year Capital Plan

As articulated to Council on July 23, 2020 through the presentation titled, "Financial Risk Management Strategy of the Regional Capital Program", a shortfall in the development charges (DC) of $600 to $700 million is forecast for the period between 2020 and 2024.

As of August 31, 2020, DC revenue was $98 million short of what was projected for 2020 based on the last DC Background Study (2015). Staff will be providing an update in December 2020 on Peel's approach to strategically defer capital projects while still enabling growth in the Region. The 2021 Capital Budget and 2021 – 2030 Capital Plan will be informed by the deferral strategy so that growth will be enabled while managing overall financial flexibility.

RISK CONSIDERATIONS

There are a number of risk factors for the 2021 Budget.

- COVID-19 – The severity and duration of the pandemic is still unknown at this point in time which makes its impact on both the services and the budget more difficult to assess.
- Economy – As the larger community continues to respond to the pandemic and the number of COVID cases fluctuate, the impact of the economic recession on Peel will continue to be volatile.
- Provincial Funding – The Province will not be announcing its 2020 budget until mid-November 2020. Provincial funding represents 25 per cent of Peel's revenue and any significant changes will impact the 2021 Budget.

Staff will re-assess the risks as new or more updated information becomes available and adjust the proposed 2021 Budget for Council's consideration as appropriate.

FINANCIAL IMPLICATIONS

To reduce the pressure on the 2021 operating budget and improve financial flexibility, the replacement of the remaining $16.7 million in debt financing with funding from the Tax Rate Stabilization reserve is proposed. This will reduce the pressure on the 2021 Operating Budget by over $563 thousand. The balance of the Tax Rate Stabilization reserve will be reduced from $141 million to $124 million or 8 per cent which is in compliance with the Reserve Management Policy.

The proposed 2021 Budget will include additional expenditures to continue the response to the COVID-19 pandemic. However, it is anticipated there will be sufficient Phase 1 COVID funding remaining after the COVID related costs and pressures for 2020 have been addressed to fund the COVID pressures identified for 2021. Therefore, COVID will not have a significant net impact on the 2021 Budget.

In addition, because the Phase 1 COVID funding will be sufficient to address the 2020 COVID related costs and pressures, the Region of Peel will not be applying for Phase 2 funding as it would currently be ineligible based on the criteria. Subject to the duration of the COVID pandemic additional senior government funding may be required in 2021.

CONCLUSION

The 2021 Budget is still being developed with focus on meeting key service demands, addressing provincial funding reductions, improving community safety and identifying opportunities for savings. While the COVID-19 pandemic will be reflected in the budget, it is not expected to be a key driver. Staff will continue to develop the 2021 Budget with focus on balancing the needs of the community with affordability.

For further information regarding this report, please contact Norm Lum, Director, Business and Financial Planning, Ext. 3567, norman.lum@peelregion.ca.

Reviewed and/or approved in workflow by:

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.

N. Polsinelli, Interim Chief Administrative Officer