
REPORT TITLE: 2021 Operating and Capital Budget

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

RECOMMENDATION

That the 2021 Operating Budget at a total value of \$2,689,996,111 as set out in Summary I of the 2021 Consolidated Operating and Capital Budget, attached as Appendix II to the report of the Commissioner of Finance and Chief Financial Officer, listed on the January 28, 2021 Regional Council Budget agenda, titled “2021 Operating and Capital Budget”, be approved;

And further, that the by-law to apportion the \$1,181,683,961 net levy funding required, be presented for enactment;

And further, that the 2021 Capital Budget for Property Tax and Utility Rate Supported Services totaling \$998,882,000 as set out in Summary VI (a) of the 2021 Consolidated Operating and Capital Budget, attached as Appendix II to the subject report, be approved;

And further, that the Consolidated 10 Year Capital Plan totaling \$10,482,616,000 as summarized in Summary VII of the 2021 Consolidated Operating and Capital Budget, attached as Appendix II to the subject report, be approved, in principle, for planning purposes;

And further, that the changes to the user fees and charges proposed in Summary VIII of the 2021 Consolidated Operating and Capital Budget, attached as Appendix II to the subject report, including the removal of the Peel Regional Police user fees and charges, be approved, to take effect in accordance with the associated By-law;

And further, that Regional Council’s approval of the Peel Regional Police fees and charges pursuant to section 397 of the *Municipal Act, 2001* not be required;

And further, that the Water, Wastewater and Waste Management System fees and charges as outlined in Summary IX of the 2021 Consolidated Operating and Capital Budget, attached as Appendix II to the subject report, be approved to take effect in accordance with the associated By-laws;

And further, that the salary portion of the 2021 Regional Budget which includes a 1.75 per cent non-union salary band adjustment be approved;

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And further, that the Commissioner of Finance and Chief Financial Officer be authorized to carry out any necessary technical adjustments in the 2021 Operating Budget, and present the necessary levy By-law for enactment;

And further, that the necessary User Fee By-laws be presented for enactment.

REPORT HIGHLIGHTS

- A copy of the 2021 Budget document (draft) was distributed to Members of Regional Council on January 7, 2021.
- An Executive Overview Presentation of the Budget will take place at the Regional Council Budget meeting on January 28, 2021.
- Region of Peel User Fees and Charges By-laws will be brought forward to Council for enactment.
- Proposed net tax levy impact of 3.2 per cent or average property tax impact of 1.3 per cent resulting in a property tax increase of \$65 to a residential home assessed at \$578,200 and a \$116 increase to a small business assessed at \$641,900.
- Proposed Utility Rate impact of 5.5 per cent resulting in an increase of \$43 for average residential consumption and a \$111 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.
- All funds raised and collected in 2020 for a sinking fund have been deposited in said fund in accordance with section 424 of the *Municipal Act, 2001*, as amended.

DISCUSSION

1. 2021 Budget Planning Process

The 2020 Budget included a 2021 net tax levy forecast increase of 4.3 per cent. On December 19, 2019, when the 2020 Budget was approved, a budget target for 2021 was not recommended to Council as in previous years due to the risk and impact of provincial funding changes.

As Provincial funding accounts for approximately 25 per cent of the Region of Peel's ("Region") annual revenue, and since the 2020 Provincial Budget was delayed to November 5, 2020, Council directed on May 14, 2020 that the commencement of budget deliberations be amended from its initial date of November 15, 2020 to January 28, 2021.

The proposed approach to developing the 2021 Budget has been influenced by the current economic effects as the Region continues to assess and adapt to the impact of the COVID-19 pandemic. The COVID-19 pandemic has triggered the start of an economic recession resulting in increased financial pressure to the Region and income uncertainty for its residents and businesses. The impact on 2021 operations will ultimately depend on the duration and severity of the pandemic. The Region and external agencies have worked together to develop a budget that reflects these challenging times.

The development of the Region's 2021 Budget was guided by the 2015 – 2035 Strategic Plan and the priorities for the current Council term. The 2021 Budget continues to invest in the three areas of focus of the Strategic Plan (Living, Thriving and Leading), to build a healthy,

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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 on the basis of respect for the taxpayer, and 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.

In addition to the Strategic Plan and Term of Council Priorities, the development of the Region's 2021 Budget was also guided by additional resource requirements for service level adjustments due to the pandemic. Significant initiatives include the following:

- Operating Budget Items
 - Expanded EarlyON program to respond to needs of families
 - Increased waste collection to be carried out safely and responsibly
 - Additional Homelessness support through Emergency Shelters
 - Increased reserves to support infrastructure
 - Continued response to COVID-19 in Long Term Care
 - Additional School-Focused Nurses for COVID-19 response

In addition, the following capital projects have been included in the 2021 Capital Budget and the Capital Plan:

- New Paramedic Station
- East-to-West Diversion Sanitary Trunk Sewer
- Housing Master Plan
- Divisional and Operational Facilities for Peel Regional Police
- Mixed Waste Processing Facility

Presented below are the key timelines leading to the development of the proposed 2021 Budget.

Activity	Date
Update on the Status of the Long Term Financial Planning Strategy	April 23, 2020
Approach to the Development of the 2021 Budget – Council Report	April 9/May 14, 2020
External Agencies Presentations on Progress Report and Future Outlook	June 25, 2020
Financial Risk Management Strategy of the Regional Capital Plan – Council Report	July 23, 2020
Update on the Development of the 2021 Budget – Council Report	October 22, 2020
Continuous Improvement Update – Council Report	December 3, 2020
2021 Capital Budget Pre-Approvals– Council Report	December 3, 2020
The Changing Economic Environment and Implications for Peel	January 14, 2021
The 2020 Infrastructure Status and Outlook – Council Report	January 28, 2021
Overview and Update on the Status of Reserves – Council Report	January 28, 2021
2020 Budget Presentations	

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Activity	Date
<ul style="list-style-type: none"> Regional Budget Corporate Overview Regional Services Budget Presentations Police Services Budget Presentations Conservation Authorities Budget Presentations Additional Budget deliberation 	January 28, 2021 January 28, 2021 February 4, 2021 February 4, 2021 February 11 & 18, 2021

The 2021 Budget deliberations for Council approval will begin with the Regional Budget Corporate Overview presentation on January 28, 2021. An appropriate notice with respect to the intention to adopt a budget was prepared and published in four local newspapers on January 14, 2021, 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. 2021 Budget Overview

Due to the Provincial funding cuts and the ongoing pandemic, the Region's 2021 Budget has been the most challenging budget to develop in the past decade. This budget balances the need to maintain core services, continue the response to COVID-19, to protect the community and respect the taxpayer. The 2021 Budget focuses the Regional services and resources towards having increased and measurable community impact.

The Executive Summary of the proposed 2021 Budget is contained in Appendix I of the subject report and provides a high-level overview of the proposed Budget. A comprehensive 2021 consolidated budget analysis is provided in Appendix II of the subject report.

The annual impact of the proposed 2021 budget increase is as follows:

	Average Residential	Average Small Business
Property Tax Impact of 1.3% ¹	\$65	\$116
Utility Rate Impact of 5.5% ²	\$43	\$111
Total Impact	\$108	\$227

¹ Home assessed by the Municipal Property Assessment Corporation at \$578,200, and small business with an assessed value of \$641,900

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

After incorporating these increases, a residential homeowner with an assessed value of \$578,200 will pay a Regional tax and utility bill in the amount of \$2,033 and \$791 respectively.

The 2021 Capital Budget for Property Tax and Utility Rate Supported Services totals \$998.9 million with \$409 million for Tax Supported Services and \$590 million for Utility Rate Services.

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 \$10.5 billion with \$4.4 billion for Tax Supported Services and \$6.1 billion for Utility Rate Services.

3. Budget Document

The Region is committed to producing a budget that is fiscally responsible and demonstrates accountability and transparency in budget reporting. The development of the 2021 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

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2021 Budget document includes an Executive Summary, a Consolidated Operating and Capital Budget document (“Consolidated Budget”), including detailed budget documents for Regionally Controlled Services, as well as detailed budget documents for Regionally Financed External Organizations. The Executive Summary is attached as Appendix I to this report and an abridged version of the Consolidated Budget is attached as Appendix II. Full non-abridged versions were delivered to Regional Council on January 7, 2021 and the full budget is also available on the Region of Peel web-site.

The 2021 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 2021 budget is aligned to the Region’s Strategic Plan and its three areas of focus – Living, Thriving and Leading including detailed budgets by service
- Major trends Peel is facing
- Service outcomes to meet community needs
- Key investments proposed in 2021 to serve Peel’s residents better
- Key budget assumptions and risks
- A high level forecast for outlook years

4. User Fees

Each year a review and update, guided by the financial principle “Users Pay Where Appropriate”, as outlined in the Financial Management By-law, is conducted on the user fees. The review and update are to determine changes, additions and deletions to the user fee schedules.

Peel Regional Police (“PRP”) have requested that the PRP user fees be deleted from the Region’s User Fee By-law commencing in 2021 with the user fees being approved by the Peel Police Services Board. Subsection 391(1) of the *Act* authorizes a municipality to impose fees or charges on persons for services or activities (including costs payable by it for services or activities) provided or done by it or on its behalf and for the use of its property, including property under its control, and subsection 391(1.1) of the *Act* similarly authorizes a local board to impose such fees and charges. The Peel Regional Police Services Board is a local board for this purpose.

On November 27, 2020, the Peel Police Services Board by resolution amended its Budget Policy to add the requirement that: “ A schedule of User Fees, including any applicable taxes, for the provision of goods, services or for the use of properties will be submitted annually to the Board for approval via the annual budget process”. Further, on November 27, 2020, the Peel Police Services Board passed a resolution approving the 2021 PRP User Fees.

Section 397 of the *Municipal Act, 2001* gives municipalities the ability to maintain control over the fees and charges of a local board, should the municipality choose to do so, by passing a by-law providing that a resolution of a local board imposing fees or charges shall not come into force until the municipality passes a resolution approving the resolution of the local board. Although this authority exists, Regional staff advise that Regional Council approval of the PRP fees is not required and recommend that Council need not pass a by-law pursuant to section 397 at this time.

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Therefore, Regional staff have removed 30 PRP fees from the Region's User Fees By-law. As a result, PRP user fees will be established and managed by the Peel Police Services Board commencing in 2021, independently from the Region.

The 2021 proposed changes to the user fees and charges have been included within the 2021 Consolidated Budget (see Appendix II) of the budget document:

- Summary VIII of the Consolidated Budget includes all the changes to the 2021 operational fees covered by the User Fees By-law. A complete schedule outlining all 2021 user fees will be attached to the appropriate by-laws when presented to Council for consideration.
- Summary IX includes the 2021 proposed fees and charges related to water consumption, wastewater and waste management systems. This summary also incorporates a blended increase of 5.5 per cent for water and wastewater services and outlines all effective dates.

5. Debt Financing

The primary use of debt financing by the Region is to provide appropriate levels of cash flow for the large utility expansions required to accommodate growth in Peel. The majority of the debt will be repaid with Development Charges (DC) revenues and a minor 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 \$430 million (per 2019 Financial Information Return) and as calculated in accordance with O. Reg. 403/02. To date, the Region's annual debt payment requirements are \$139 million, therefore \$290 million remains for future debt commitments.

In 2020, DC revenues have been below forecast (based on the 2015 DC background study) due to the COVID-19 pandemic induced economic slowdown. In July 2020, Council endorsed a Capital Deferral Strategy to review future spending in light of the changing economic conditions and growth forecasts in Peel. Based on current forecasts, the DC Reserve Fund balance is likely to be in a negative cash position in early/mid 2021. To manage the DC cash flow, and to provide additional flexibility, the Region expects to issue between \$150 million to \$250 million of DC related debt which may be required in 2021. Debt is also expected to be utilized in 2021 as part of the Housing Master Plan – actual amounts will depend on the progression of projects under the Housing Master Plan. In accordance with section 424 of the *Municipal Act, 2001*, as amended, and the Region's Debt Policy, the 2021 Budget includes all required contributions to sinking funds under existing debenture by-laws issued. The Treasurer advises that the sinking fund contribution requirements for 2021 are as follows:

Funding Source	Amount Budgeted (2021)
Development Charges	\$ 50,804,732
Property Taxes	\$ 1,202,155
Caledon Recovery	\$ 7,715
Total	\$ 52,014,602

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

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Also, in accordance with section 424 of the *Municipal Act*, 2001, as amended, and in accordance with the direction from Council on adopting the Region's Debt Policy, the Treasurer confirms that all funds raised and collected in 2020 for a sinking fund have been deposited in said fund. 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 2021 Budget fully funds the current year retiree benefit payments totaling \$4.0 million, in addition the 2021 budget partially funds the accrued post-retirement benefit liability related to future payments when members retire.

b) Tangible Capital Asset Liability

The proposed 2021 annual reserve contributions for both Tax and Utility Rate supported Services exceed the respective estimated 2020 amortization expense for Tangible Capital Assets estimated at \$293 million.

7. Notional Tax Adjustment

The 2021 Operating Budget includes a projected assessment growth of 0.88 per cent, which includes a notional property tax rate technical adjustment in the amount of \$2,447,676 million as determined using the Online Property Tax Analysis (OPTA) data as of December 3, 2020. The finalized property tax rate calculation adjustment will be determined in early 2021, and any additional assessment growth related revenue will be included as a technical adjustment in the Region's 2021 Final Levy By-law report to Council in April 2021.

8. Plan for the 2022 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 bended inflation; the Canadian Price Index (CPI) for operating costs and the Average Non-Residential Construction Index to recognize Peel's infrastructure intensive services.

As noted in Appendix I: Executive Summary, the forecasted net tax levy increase for 2022 is 3.8 per cent which is higher than the upper end of the Bank of Canada inflation target and above current Consumer Price Index increases. This increase includes the forecasted increase for the PRP currently estimated at 4.0 per cent. The forecast was developed using global and service specific assumptions, i.e., service demand, labour costs, CPI 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 (2022 to 2024) is 2.9 per cent assuming assessment growth of 0.8 per cent. The outlook years also reflect an average forecasted increases for PRP of 4.0 per cent.

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CONCLUSION

The proposed 2021 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 - Executive Summary – Region of Peel Proposed 2021 Budget

Appendix II - 2021 Consolidated Operating and Capital Budget (including Summaries I-IX)

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

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Reviewed and/or approved in workflow by:

Department Commissioner, Division Director and Legal Services.