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REPORT
Meeting Date: 2017-04-27
Regional Council

For Information

DATE:	April 12, 2017
REPORT TITLE:	**2017 ANNUAL UPDATE ON REGION OF PEEL'S FINANCIAL CONDITION**
FROM:	Stephen VanOfwegen, Commissioner of Finance and Chief Financial Officer

OBJECTIVE

To provide an annual update on the Region of Peel's financial condition and management actions under its Long Term Financial Planning Strategy.

REPORT HIGHLIGHTS

- The Region of Peel's ("Region") Triple "A" (AAA) credit rating has been reaffirmed by credit rating agencies.
- Recommended actions from 2016 Financial Condition Scorecard have been actioned including: a 2017 Budget that was in line with inflation and implementation of infrastructure levies to support state of good repair requirements and mitigate potential sustainability risks in the long term.
- The Financial Condition Scorecard shows that the Region is within acceptable ranges for nine of the twelve indicators. Actions for three indicators are summarized in Appendix I.
- The 2017 Financial Condition Scorecard includes actions to mitigate longer term risks to ensure that the Region continues to remain financially healthy.

DISCUSSION

1. Background

In April 2013, Regional Council approved the Long Term Financial Planning Strategy ("the Strategy"), to address the increasing financial pressure that Peel's growing and evolving community is putting on its services and programs. The Strategy applies a disciplined, comprehensive and integrated approach that identifies and manages the risks to the Region's long term financial sustainability and credit rating. To implement the Strategy, a Financial Management By-law is utilized to govern all financial policies including the Development Charges and User Fee By-laws, the Reserve Management, Budget, Asset Management, Investment, Debt, Cash Management and Energy Hedging policies.

To assess the Region's financial health, an annual financial condition scorecard was developed that utilizes financial performance indicators in three key areas; financial sustainability, financial vulnerability and financial flexibility.

As an overview of overall financial condition, the Region's AAA/Aaa credit rating was reaffirmed by both Standard & Poor's Global Ratings and Moody's Investors Service in 2016.

a) Status of the 2016 Financial Condition Scorecard Recommendations

The 2016 Financial Condition Scorecard was reported to Council in April 2016. It indicated that the Region was overall financially healthy and included the following actions to maintain its financial condition:

- Include a 1.0 per cent tax levy and 3.5 per cent utility rate infrastructure levy in the 2017 Budget to mitigate sustainability risks in the long term
- To address the trend where non-residential tax revenue is declining, the Growth Management Committee is reviewing the changing nature of employment trends
- On April 14, 2016 Regional Council approved the transfer from Capital Reserves to the Utility Rate Stabilization Reserve to bring the level into compliance with threshold of 5 to 10 per cent of Total Operating Budget as set in the Reserve Management Policy.

The recommended actions were addressed throughout the past year.

b) Long Term Financial Planning Strategy supporting Council Outcomes

The Long Term Financial Planning Strategy is used to set priorities for the resources needed to achieve the objectives set by the Strategic Plan and supports the cost efficient delivery of Regional services. Long-term sustainability is achieved when the pillars of financial sustainability, financial vulnerability and financial flexibility are balanced.

Currently, the Long Term Financial Planning Strategy is being used to inform decision making. The following Council outcomes are currently supported by the Strategy:

- Seniors Health and Wellness Village including Adult Day program expansion at Peel Manor
- Waste Reduction and Resource Recovery Strategy
- Long Term Affordable Housing Strategy
- Sustainable Growth Management

The Strategy will continue to help provide Council with financial context as it considers the new priorities, program strategies and policy changes as noted above.

2. 2017 Financial Condition Scorecard

Staff assessed the Region's current financial condition using the financial performance indicators on the Financial Condition Scorecard (Appendix I). The scorecard shows that the Region is within acceptable ranges for nine of the twelve indicators. The summary of the financial performance indicators and the actions for three remaining indicators to mitigate potential risk to the Region of Peel's long-term financial sustainability and credit rating are as follows:

a) Tax Rate in Line with Inflation

Since the implementation of the Strategy in 2013, the average net tax levy increase was 1.74 per cent between the years 2013 to 2017, which is in line with the Bank of Canada inflation target range.

During 2017 Budget, Council established a target for the 2018 Budget at 2.1 per cent net tax levy increase plus 0.5 per cent for Council's direction to reinvest the tax room made available by Ontario Works Provincial Upload of $4.5 million in affordable housing. The net tax levy target of 2.6 per cent is within the target range for inflation set by the Bank of Canada (1- 3 per cent).

b) Adequate Capital Reserves – Tax

Analysis of the capital reserve requirements based on the 2017 to 2026 Tax Supported Capital Plan indicates that current reserve levels and contributions are not sufficient to fund the 10-year Capital Plan. The projected shortfall includes the estimated infrastructure cost for the social housing portfolio including those owned by all housing providers and 2016 Council approved projects. A major focus is on housing provider viability by having adequate capital reserve balances to fund all necessary capital requirements. Peel's housing stock is aging and there will be increased pressures on the Region to help maintain its stock.

For long term sustainability, an action has been recommended to include a one per cent infrastructure levy as approved in the 2017 Budget and continued for 2018 to address the shortfall over the 10 year plan.

c) Adequate Capital Reserves – Utility

Assessment of the state of good repair capital reserve requirements for the 2017 to 2036 Utility Supported Capital Plan indicate that current reserve levels and contributions are not sufficient to address the state of good repair of existing and new regional utility infrastructure over the twenty year period. Based on the reserve adequacy assessment, there is a projected shortfall of $1.7 billion in available funding by the end of year 2036. Staff will seek to mitigate the shortfall by a continued focus on sustainability through the review of capital requirements and funding.

To mitigate the current unfunded shortfall, the 2017 Utility Rate Budget included a 3.5 per cent rate levy increase or $11 million to support Peel's long term infrastructure requirements. An annual increase of 3.5 per cent for seven years from 2017 will be required to close the gap. The Region of Peel's utility rate is comparatively lower than other GTA municipalities and will continue to remain lower with the implementation of the forecasted increases.

The Region has become eligible for federal and provincial infrastructure funding programs for Water and Wastewater projects as described to Council on February 23, 2017 in a report titled 'Clean Water and Wastewater Fund Program Update'. As applications for the funding programs are in progress, the final amount of funding is subject to change based on approval of the submitted applications. Infrastructure funding from other levels of government improve long-term sustainability of Peel's Water program through replacing funding from internal reserves and making it available for other capital projects. The Region's Capital Plan allows the flexibility to attract future funding opportunities as they emerge.

d) Focus GTA Survey – Value for Tax

The Focus GTA Survey for spring 2016 indicates that the majority of Peel residents (75 per cent) consider the programs and services offered by the Region to be good value for their tax dollars. The survey results are in line with those in prior years. The results of this study confirm that the Region's priorities align to the issues raised by the communities in Peel.

e) Less than 20 per cent Development Charge increase required

In 2015 the Development Charges (DC) By-law was updated with increased rates to offset the known shortfall that had developed since the passing of the 2012 DC By-law. An increase to the existing DC rates is not required at this time as the current estimated increase is below the established 20 per cent threshold.

Staff will provide Council with a more comprehensive update on the performance of DC revenues over the past ten years and the impact of recent efforts to reduce risks to the financial sustainability of the DC program in a Council report titled "Development Charges Revenue Trend and Rates Adequacy - 2017 Update" in May 2017.

f) Less than 50 per cent of the Budget is funded by property tax

Based on the 2017 budget, property tax currently funds 44 per cent of the operating budget which is within the acceptable range and has not changed significantly from last year.

g) Non-residential tax revenue is between 35 per cent and 45 per cent

Non-residential tax revenue is currently estimated at 37.2 per cent of the total operating tax revenue. Although this is within an acceptable range, the proportion of non-residential tax revenues has continued to decline over the past decade due to changing nature of employment. The decline represents a decreasing proportion of property tax revenues from Industrial, Commercial and Institutional (ICI) sector.

A continuing decline would put pressure on long term financial sustainability. The issue is being reviewed as part of the Term of Council Priority to plan and manage growth and is a focus area for the Growth Management Committee. The Region is currently developing an employment report to better understand the causes of the underperformance of non-residential growth and to develop strategies with local municipalities that can help to improve financial outcomes going forward. As part of this effort, the Region is also working with the local municipalities to develop a strategy for transportation/transit to support employment growth that represents the municipal plans and identifies opportunities where the Region can support increased active and public transit.

h) 100 per cent compliance with the Investment Policy

Based on a review of the Region's current investments, staff reports that the Region continues to be 100 per cent compliant with the Investment Policy. The Region of Peel's treasury practices and procedures are currently being reviewed which will include a review of this indicator with focus on investment returns in order to enhance Peel's long term sustainability. A report with results of the ongoing review is planned to be presented to Audit and Risk Committee in May 2017.

i) Adequate Rate Stabilization Reserves – Tax

The balance of the Tax Supported Rate Stabilization Reserves as at December 31, 2016 was $157 million or 12 per cent of the 2017 Tax Supported Operating Budget, which is above the range of five to ten per cent as outlined in the Reserve Management Policy. The reserve level is retained pending resolution of the $198 million GO Transit liability.

j) Adequate cash to fund 12 months of debt payments

The Region's annual debt payments (principal and interest) for 2017 are approximately $113 million. Sufficient cash is on hand to fund at least one year of debt repayments and protect Peel's liquidity.

k) Adequate Rate Stabilization Reserves - Utility

Staff has exercised Council's delegated authority through the Budget Policy to allocate the operating surplus from the Utility Rate Supported programs and reported to Council on April 13, 2017 in a report titled '2016 Operating Financial Triannual Performance Report - Year End (UNAUDITED)'. The balance of the Utility Rate Stabilization Reserves as at December 31, 2016 is estimated at $35.8 million or 7 per cent of the 2017 Utility Rate Supported Operating Budget. The current balance is within the range of five to ten per cent as outlined in the Reserve Management Policy.

l) Annual debt payments are less than 25 per cent of own source revenue

The Province imposes an Annual Repayment Limit (ARL) which represents the amount of debt the Region of Peel can issue based on 25 per cent of its own source revenues. Based on the most current Provincial estimate (2015), the Region's net debt charges were 8.3 per cent of the net revenues and the Region had annual debt repayment room of $245.6 million before the 25 per cent maximum would be reached. Based on this, the Region has an additional borrowing capacity of approximately $2.8 to $3.7 billion based on a combination of interest rate and debt term. As highlighted to Council in 2017 Budget, Peel will request authorization to issue debt up to $200 million in 2017, to ensure that Council's priorities can be implemented. After the potential debt issuance Region of Peel will be at 8.9 per cent of the legislated 25 per cent Annual Repayment Limit in 2017.

As a result of prudent planning and financial management, the Region of Peel is able to maintain its flexibility to issue debt and enable more options to advance the Region's Strategic Plan.

3. Proposed Direction

Peel's Long Term Financial Planning Strategy provides Council with a basis to inform decision-making. As mentioned earlier in the report, Peel's environment is continually evolving. To mitigate long term risks, the Region will strive to ensure the long term financial sustainability of services, reduce vulnerability and remain flexible.

A review of the Long Term Financial Planning Strategy is planned which will include stakeholder consultations to determine the relevancy of the financial principles and the indicators currently used, and update if necessary, for completion in 2019.

CONCLUSION

The Region of Peel's Long Term Financial Planning Strategy is an effective tool to guide Regional Council and staff decisions related to service and program planning in alignment with Region's Strategic Plan and Term of Council objectives. Financial policies and processes are providing a framework to help monitor, control and maintain the Region's financial condition. The 2017 Financial Condition Scorecard includes actions to mitigate longer term risks but overall, the Region of Peel continues to remain financially healthy.

Stephen VanOfwegen, Commissioner of Finance and Chief Financial Officer

Approved for Submission:

D. Szwarc, Chief Administrative Officer

APPENDICES

1. Appendix I – 2017 Financial Condition Scorecard

For further information regarding this report, please contact Norman Lum, Director, Business and Financial Planning at 905-791-7800 x 3567 or norman.lum@peelregion.ca

Appendix I

Region of Peel
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2017 Financial Scorecard

Financial Principles	Indicator	Assessment	Summary of Action
Overall Financial Condition	**High level credit rating**	On track	AAA credit rating reaffirmed by S&P and Moody's
Sustainability			
■ Respect the tax and utility rate payer	Tax rate in line with inflation	On track	No action required
■ Maintain Assets	Adequate Capital Reserves - Tax	Action recommended	Continue 1.0 per cent infrastructure levy in 2018
■ Ensure Capital Plan is sustainable	Adequate Capital Reserves - Utility	Action recommended	Continue 3.5 per cent infrastructure levy in 2018
■ Deliver value for money	Focus GTA Survey - Value for Tax	On track	No action required
Vulnerability			
■ Users pay where appropriate	Less than 20% DC rate increase required	On track	No action required
■ Work with area municipalities to support economic viability of the community	Less than 50% of Budget funded by property tax	On track	No action required
	Non-residential tax revenue - 35% to 45%	Declining	Work with local municipalities to address changing nature of employment
■ Prudently invest	100% compliance with investment policy	On track	No action required
Flexibility			
■ Mitigate significant fluctuations in tax and utility rates	Adequate Rate Stabilization Reserves Tax - 5% to 10%	On track	No action required
	Adequate cash to fund 12 month debt payments	On track	No action required
	Adequate Rate Stabilization Reserves Utility - 5% to 10%	On track	No action required
■ Borrow only for substantial long term assets at affordable rates	Annual debt payments <25% own source revenue	On track	No action required