

For Information

DATE: June 5, 2013

REPORT TITLE: **TRIANNUAL FINANCIAL PERFORMANCE REPORT AS AT APRIL 30,
2013**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

OBJECTIVE

To provide Regional Council with an update on the forecasted financial year-end position of Regional programs based on information and financial results as of April 30, 2013 for Current and Capital operations.

REPORT HIGHLIGHTSCurrent Operations

- Regional Council approved the 2013 Operating Budget of \$1.9 billion to provide the funding for the Region to continue to deliver quality services and meet the services needs and the service demands of a growing community
- Tax and Utility Rate Supported Programs are forecast to end the year within budget accuracy target of plus or minus three per cent

Capital Operations

- Regional Council entrusted staff to execute a \$3.0 billion capital program consisting of the approved 2013 Capital Budget of \$930 million and \$2.1 billion in Capital Work in Progress
- Over ninety-six per cent of the total 2013 Region Controlled capital work is progressing as planned

Development Charge (DC) Status

- DC revenue exceeded DC expenditures by \$6.6 million in the first four months of 2013
- No new debentures were issued in the first trimester of 2013

DISCUSSION**1. Background**

In December 2012, Regional Council approved a \$2.8 billion 2013 Budget, including \$1.9 billion in operating funding for Regional services and \$930 million capital investment in Peel's infrastructure.

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a) 2013 Operating Budget

The approved 2013 Operating Budget of \$1.9 billion includes \$0.4 billion to Peel's externally financed agencies: Peel Regional Police, Ontario Provincial Police, and three Conservation Authorities. The budget provides the Region with the funding to support the following community needs:

- Support 17,000 social assistance clients monthly
- 49 ambulances on the road at peak times to respond to 90,228 "911" calls
- 500,000 accessible transportation trips
- 17,766 social housing units/beds/homes
- 4,420 subsidized child care spaces with 800 spaces for children with special needs
- 256,595 resident days of care in five long term care homes
- Dental screening to 50,000 children
- 242,932 immunization records managed
- 9,840 inspections at 5,517 food premises
- 1,643 lane kilometres of roads, 169 structures and 437 signalized intersections
- Over 500,000 tonnes of waste managed
- Wastewater treated for 300,000 customers – over 600 million litres per day
- Municipal water treated, transmitted to over 301,400 customers – over 570 million litres per day
- Visible policing services responding to over 231,000 calls in Brampton and Mississauga by Peel Regional Police and 18,000 calls by Ontario Provincial Police in Caledon
- Through the Conservation Authorities responsible management of Peel's water, land and natural habitats over 1,254 square kilometres

Peel's operating budgets are developed based on the best information available at the time of budget preparation. Assumptions are modeled and projected, e.g. social assistance caseload, "911" call volumes, winter events etc. Risks are identified and mitigated where reasonable such as utilizing working fund reserves to address volatility in weather conditions, economic cycles and one time initiatives or pilots, to minimize the impact on the tax payer.

Actual service level in 2013 could vary based on changes in demand, e.g. the number of clients requiring social assistance, water consumption and winter maintenance events impacted by the weather. These types of service level variances are normal in any business and beyond the control of the Region. Peel actively monitors these changes throughout the year and takes action to manage potential risks to provide flexibility and to mitigate the tax rate impact to address the typical variability experienced in most years.

b) 2013 Capital Program

The 2013 Capital Program includes the approved 2013 Capital Budget of \$930 million and Council previously approved capital work in progress of \$2.1 billion. The \$2.1 billion capital work in progress represents more than two-thirds of the total capital program. This is due to the fact that the majority of Peel's capital work consists of large projects that take upwards of five to eight years to complete from start to finish. The total 2013 Capital Program of \$3 billion includes capital projects to:

- Create new roads such as the Bolton Arterial By-Pass
- Widen roads to better facilitate the movement of goods and services; for example the widening of Queen Street West

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- Maintain road surfaces
- Improve the environment through the development of community recycling centres (CRC) such as the Heartlake CRC
- Support the most vulnerable residents through funds for the construction of affordable housing units e.g. Legion, Creditview/Eglington etc.
- Support the health of the community through funds for new ambulance facilities e.g. Fernforest Reporting Station
- Provide clean drinking water by investing in the development of a transmission system, plant facilities and distribution systems
- Support community health through the development of the primary wastewater collection system

Peel's capital plans are developed based on Peel's Growth Master Plans, Regional Official Plan, Corporate Asset Management for state of good repair and other council directions such as Long Term Waste Management Strategy. Peel actively monitors the changes to these plans and adjusts the capital plan where it is required.

The new Budget Policy approved by Council on May 9, 2013 requires that staff report the financial status of the organization at a minimum of twice yearly. This report provides an update on the forecasted year-end financial position of Current and Capital Operations using the information and the financial results available at April 30, 2013.

2. Operating Performance

The Region's operating performance includes both Tax Supported Programs and Utility Rate Supported Programs. Appendix I of the subject report provides by program the forecast net expenditure year-end position.

a) Tax Supported Programs

Tax Supported Programs is currently forecast to end the year with a variance of less than one per cent of the total net Tax Supported budget as outlined in Table 1 below, well within Peel's budget accuracy target of plus or minus three per cent.

Table 1: 2013 Tax Supported Programs Year-end Projection Compared to Budget

| \$ Millions | Total Expenditure Budget | Net Expenditure Budget | Net Expenditure Year-end Projection | Projected Surplus/ (Deficit) | % Variance to Net Budget |
|----------------------------|--------------------------|------------------------|-------------------------------------|------------------------------|--------------------------|
| Region Controlled Programs | 1,047.3 | 490.4 | 491.7 | (1.3) | (0.3%) |
| External Agencies | 425.1 | 386.2 | 385.7 | 0.5 | 0.1% |
| Total | 1,472.4 | 876.6 | 877.4 | (0.8) | (0.1%) |

As mentioned before, Peel's budgets are developed based on the best information available at the time. Assumptions are modeled and projected. Throughout the year staff actively monitor the budget driver changes, identify risks and mitigate the risks where reasonable. The following are the significant budget driver changes during the first trimester of 2013.

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i) External Funding

- Higher Waste Diversion Ontario (WDO) funding for Waste Management
- Unanticipated Early Learning & Child Care funding of \$26 million received in 2013 will be invested in the program enhancements

ii) Economy

- Lower commodity revenue as prices for fiber and containers continue to be suppressed (risk disclosed in 2013 Budget)
- Increased Tax Write-offs and decrease in Payment In Lieu of Taxes (PILTS)

iii) Weather

- Higher than normal winter maintenance events during January – April 2013

iv) Operations

- Lower Waste Management operating costs as a result of lower property tax, lower haulage and disposal costs

Staff have incorporated the above budget driver changes in forecasting year-end position. Staff will continue to manage these changes and take actions to manage potential risks to provide flexibility and to mitigate the tax rate impact.

b) Utility Rate Supported Programs

The Utility Rate Supported programs are forecast to end the year with a surplus of \$4.7 million, representing a variance of less than two per cent on a total Direct Billings budget of \$266.1 million as outlined in Table 2 below, well within Peel's budget accuracy target of plus or minus three per cent.

Table 2: 2013 Utility Rate Supported Programs Year-end Projection Compared to Budget

| \$ Millions | Budget | Year-end Projection | Projected Surplus/(Deficit) | % Variance to Net Budget |
|-----------------------------------|----------|---------------------|-----------------------------|--------------------------|
| Water/Wastewater Net Expenditures | 293.5 | 289.8 | 3.7 | 1.4% |
| Peel Direct Billings | 266.1 | 266.1 | 0.0 | 0.0% |
| * Other Billings/ Revenues | 27.4 | 28.4 | 1.0 | 3.6% |
| Net | 0 | 4.7 | 4.7 | 1.8% ** |

* Includes billings & revenue from York, Toronto, and Sewer Surcharge

** Based on Peel's Direct Billings budget of \$266.1 million

Major budget driver changes identified during the first trimester include higher than budgeted York flows and lower operating costs related to electricity costs and natural gas prices, and lower chemical usage as a result of process optimization at the wastewater treatment plants. Staff will continue to monitor the budget drivers and manage changes throughout the year.

c) 2014 Outlook

As noted earlier, 2013 financial results are being driven by a number of factors such as the economy, weather, funding etc. Staff will assess risks associated with key changes and incorporate sustained base changes in developing the 2014 Budget. Generally, the drivers

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impacting 2013 financial performance are balanced between positive and negative. Changes impacting the 2014 Budget that vary from the 2014 Budget forecast will be highlighted for Regional Council during the 2014 Budget review for both Tax and Utility rate programs.

3. Capital Operations**a) Update on the Progress of the 2013 Region Controlled Capital Program**

2013 Capital Program included both new capital projects approved in the 2013 Capital Budget and capital projects previously approved by Council. As noted earlier, the capital work plan was developed to execute Growth Master Plans and Council's strategic priorities including those identified in the 2011 – 2014 Term of Council Priorities, and to manage state of good repair of Peel's \$19 billion infrastructure.

Of the \$2.8 billion 2013 Region Controlled capital program, 96.3 per cent of the capital work is progressing as planned. The remaining 3.7 per cent was either deferred due to staff's active decision to put on hold or due to unforeseen complications.

To efficiently manage the Region Controlled capital program of \$2.8 billion, staff mitigate risks by actively managing its largest capital projects based on gross budget value. In fact, the top 25 capital projects, based on gross budget value, represent less than two per cent of the total number of active capital projects (1,354 projects), but represent over two-thirds of the total gross value of active capital projects. On May 23 2013, staff provided a detailed status update to Council in the 2012 year-end capital performance report on the top 25 capital projects and will continue to report annually.

b) 2013 Capital Spending

As capital work is implemented, it impacts the Region's capital reserves and reserve funds. Financial Flexibility is one of the three financial pillars of Peel's Long Term Financial Planning Strategy. In order to have financial flexibility, appropriate levels of cash need to be maintained. The majority of the Region's cash resides in reserves and reserve funds with debt currently being used as a tool to manage cash levels. Staff continue to use pro-active phasing of the capital projects as one of the methods to execute the 2013 Capital Program within the constraints of the cash levels of the reserves, reserve funds and the debt plan. As major projects move from one phase to the next, staff will continue to consider Peel's current financial condition prior to proceeding.

Projected 2013 capital spending for Tax and Utility Rate Supported Programs is illustrated in Table 3.

Table 3: 2013 Capital Cash Expenditures compared to Budgeted Spending

| \$ Millions | 2013 Gross Capital Spending Budget | 2013 Projected Year-end Spending | Variance Under/(Over) | Variance to Spending Budget % |
|------------------------|---|---|--------------------------|--|
| Tax Supported Programs | 362.7 | 276.0 | 86.7 | 24% |
| Utility Rate Supported | 450.0 | 540.0 | (90) | (20%) |
| Total Region | 812.7 | 816.0 | (3.3) | 0.4% |

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The projected \$816.0 million capital spending is to be invested in various service areas such as expansion and maintenance of roads, water and wastewater infrastructure and new ambulance facilities.

The projected \$86.7 million under spending variance from target for Tax Supported capital was a result of the management decision to defer some project work such as technology related projects and the delay in the affordable housing building project as the financing arrangement with Infrastructure Ontario has not been finalized.

Utility Rate supported capital projects are proceeding ahead of original forecast due to some capital work from 2012 being deferred into 2013. Majority of the spending relates to big projects undertaken including Hanlan Transmission Main, Mississauga City Centre Feedermain, Lakeview Treatment Plan Expansion and Mississauga and Brampton Watermain Replacement Program.

Appendix II includes details of the 2013 capital spending forecast.

c) Development Charges

For the four months period ended April 30, 2013, the Region collected \$47.6 million in Development Charge (DC) revenue and spent \$41 million on DC eligible growth projects as outlined in Table 4 below. This resulted in a year-to-date net positive balance of \$6.6 million. With construction activity increasing from mid to late spring onwards, it is expected that spending will increase significantly till late fall and will result in a net cash draw.

Table 4: 2013 DC Revenues and DC Expenditures

| \$millions | DC Revenues | DC Expenditures | Net |
|--|--------------|-----------------|---------------|
| 2013 Budget Estimate | 165 | 380 | (215) |
| Actuals (YTD April 30) | 47.6 * | 41 | 6.6 |
| YTD actual % of Budget Estimate | 28.8% | 10.8% | (3.1%) |

* Includes \$34 million received and \$13.6 million to be received for the month of April. DC revenues are received by the Region one month after collection at the area municipality. Preceding amounts exclude debt repayment of \$71.0 million in 2013.

As seen in Table 4 above, a net cash draw of \$215 million was estimated for 2013. Staff will continue to monitor the DC revenue collection and the capital spending and will manage cash requirement accordingly through the Region's Debt Plan.

d) Debt

Debt is one of the tools used to maintain financial flexibility by providing additional cash. It is issued against significant long term assets. As noted above, the capital plan is managed to ensure debt levels are appropriate and in line with the Debt Policy.

As at April 30, 2013 the Region's net outstanding debt totals \$1,318.3 million. The debt issuance was in accordance to the Region's Debt Plan. The debt can be separated into three general categories as illustrated in Table 5 below.

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Table 5: Outstanding Debt as of April 30, 2013

| Type of Debt | Net Outstanding Debt (\$ millions) |
|--|------------------------------------|
| DC Growth Related debt | 1,023 |
| Non-DC Growth Related debt | 52 |
| Less: Sinking Fund Contributions and Principal Repayments | (33.4) |
| Mortgages (Peel Living) | 276.7 |
| Total | 1,318.3 |

Council has approved up to \$300 million in further DC related borrowings in 2013. Based on the estimated Annual Repayment Limit amount of \$246.6 million for 2012, the Region would have an additional borrowing capacity of approximately \$2.8 billion assuming a term of 20 years at 6.0 per cent interest.

CONCLUSION

The Region of Peel's forecast year-end financial position for both Current and Capital operations are within budget target parameters. The Region will continue to monitor Operating Budget driver changes and manage the risks to provide flexibility and mitigate the tax rate impact. In addition, staff will continue to execute the capital program through pro-active management, active deferrals and other strategies within the constraints of the reserves, reserve funds and debt plan. The Region will manage its financial resources for service delivery through balancing the three pillars of Financial Sustainability, Financial Vulnerability and Financial Flexibility.




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Approved for Submission:


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c. Legislative Services

Net Expenditure Statement
Forecasted Year-End Position (\$'000)

| | 2013 Revised Budget | 2013 Program Year-End Projection | Deferred Contingent Working Fund Draw | 2013 Adjusted Year-End Position | Projected Year-End Surplus/(Defecit) |
|--|--------------------------------|---|--|--|---|
| | A | B | C | D=(B-C) | E=(A-D) |
| Tax Supported Programs | | | | | |
| Region Controlled Programs | | | | | |
| Public Works | | | | | |
| Development Services | 902 | 902 | | 902 | - |
| Transportation | 72,941 | 73,691 | | 73,691 | (750) |
| Waste Management | 101,047 | 99,250 | | 99,250 | 1,797 |
| Public Works Admin | - | - | | - | - |
| Operation Support Services (including Rev Mgmt) | 1,208 | 1,208 | | 1,208 | - |
| Subtotal Public Works | 176,098 | 175,051 | - | 175,051 | 1,047 |
| Human Services | | | | | |
| Human Services Admin | - | - | | - | - |
| Housing | 111,284 | 110,884 | (400) | 111,284 | - |
| Early Learning and Child Care | 23,848 | 22,388 | (100) | 22,488 | 1,360 |
| Social Assistance and Employment | 47,900 | 47,900 | | 47,900 | - |
| Community Investment | 5,577 | 5,408 | | 5,408 | 169 |
| Subtotal Human Services | 188,609 | 186,580 | (500) | 187,080 | 1,529 |
| Health Services | | | | | |
| Long Term Care | 30,183 | 30,183 | | 30,183 | - |
| Paramedic and Emergency Programs | 39,712 | 39,712 | | 39,712 | - |
| Public Health | 25,782 | 25,772 | | 25,772 | 10 |
| Health Admin Services | 709 | 709 | | 709 | - |
| Subtotal Health Services | 96,386 | 96,376 | - | 96,376 | 10 |
| Corporate Services | 17,772 | 16,799 | (900) | 17,699 | 73 |
| Employee & Business Services | 24,762 | 21,715 | (1,500) | 23,215 | 1,547 |
| Executive Office, CIO, SIP, Council | 4,417 | 4,317 | | 4,317 | 100 |
| Non-Program | (862,413) | (856,864) | | (856,864) | (5,548) |
| General Corporate | (31,865) | (31,865) | | (31,865) | - |
| Internal Support/Non-Program | (847,327) | (845,898) | (2,400) | (843,498) | (3,828) |
| Total Region Controlled Programs | (386,233) | (387,891) | (2,900) | (384,991) | (1,243) |
| Region Financed External Organizations | | | | | |
| Police Services | | | | | |
| Peel Regional Police | 338,407 | 338,407 | | 338,407 | - |
| Ontario Provincial Police | 11,592 | 10,874 | (250) | 11,124 | 468 |
| Subtotal Police Services | 349,999 | 349,281 | (250) | 349,531 | 468 |
| Conservation Authorities | 19,012 | 19,012 | | 19,012 | - |
| Assessment Services | 17,222 | 17,222 | | 17,222 | - |
| Total Region Finance External Organizations | 386,233 | 385,516 | (250) | 385,766 | 468 |
| Total Tax Supported Programs | - | (2,375) | (3,150) | 775 | (775) |
| Utility Rate Supported Programs | | | | | |
| Water | - | (1,300) | | (1,300) | 1,300 |
| Wastewater | - | (3,400) | | (3,400) | 3,400 |
| Total Utility Rate Supported Programs | - | (4,700) | - | (4,700) | 4,700 |
| TAX RATE | - | - | - | - | (775) 4,700 |

2013 Capital Spending Forecast ('\$000)

| | 2013 Cash Flow Forecast as in Budget | YTD Actual Gross Expenditures (Jan-Apr) | YTD % Spending | Projected Spending Jan-Dec | Year-end Projection % of Target |
|---|--|--|-------------------|----------------------------------|---------------------------------------|
| Property Tax Supported Programs | | | | | |
| <i>Region Controlled Programs</i> | | | | | |
| Public Works - Tax | | | | | |
| Waste Management | 33,500 | 2,037 | 6% | 24,535 | 73% |
| Transportation | 104,000 | 8,029 | 8% | 104,000 | 100% |
| Operations Support | 21,875 | 1,840 | 8% | 19,801 | 91% |
| Subtotal Public Works - Tax | 159,375 | 11,906 | 7% | 148,336 | 93% |
| Health Services | | | | | |
| Long Term Care | 10,722 | 503 | 5% | 2,451 | 23% |
| Paramedic Services | 29,571 | 3,842 | 13% | 26,194 | 89% |
| Public Health | 955 | 1 | 0% | 1 | 0% |
| Subtotal Health Services | 41,248 | 4,346 | 11% | 28,646 | 69% |
| Human Services | | | | | |
| Early Learning & ChildCare | 77 | 0 | 0% | 0 | 0% |
| Housing | 55,729 | 7,423 | 13% | 25,954 | 47% |
| Subtotal Human Services | 55,806 | 7,423 | 13% | 25,954 | 47% |
| Internal Support | | | | | |
| Corporate Services | 8,129 | 425 | 5% | 3,361 | 41% |
| Greenlands Securement | 828 | 47 | 6% | 828 | 100% |
| Employee and Business Services | 52,219 | 4,270 | 8% | 23,284 | 45% |
| Subtotal Internal Support | 61,176 | 4,742 | 8% | 27,473 | 45% |
| Total Region Controlled - Tax | 317,605 | 28,417 | 9% | 230,409 | 73% |
| Region Financed External Organizations | | | | | |
| Ontario Provincial Police | 0 | 299 | 0% | 514 | 0% |
| Peel Regional Police | 45,066 | 7,085 | 16% | 45,066 | 100% |
| Total Region Financed Organizations | 45,066 | 7,384 | 16% | 45,580 | 101% |
| Total Tax Supported Programs | 362,671 | 35,801 | 10% | 275,989 | 76% |
| Utility Rate Supported Programs | | | | | |
| Water | 350,000 | 45,469 | 13% | 450,000 | 129% |
| Wastewater | 100,000 | 12,800 | 13% | 90,000 | 90% |
| Total Utility Supported Programs | 450,000 | 58,269 | 13% | 540,000 | 120% |
| Total Region | 812,671 | 94,070 | 12% | 815,989 | 100.4% |