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DATE: August 25, 2008

SUBJECT: **2009 BUDGET PROCESS AND PRELIMINARY ESTIMATES**

FROM: Norma Trim, Acting Chief Financial Officer

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### RECOMMENDATION

That the timelines for the 2009 Budget Process as set out in the report of the Acting Chief Financial Officer (ACFO), dated August 25, 2008, titled "2009 Budget Process and Preliminary Estimates", be approved;

And further, that the subject report be forwarded to the Peel Police Services Board (PPSB) and that the Board be requested to submit its budget along with all documentation required for presentation to Regional Council by October 31, 2008.

### REPORT HIGHLIGHTS

- Timelines are recommended for the 2009 Budget process with the budget being presented to Council in December 2008.
- A preliminary review of tax-supported budget pressures, after accounting for the reduced expenditures related to ODSP and GTA Pooling, indicates a tax increase in the 8 per cent range which is somewhat higher than forecasted last year for 2009 primarily due to inflationary pressures in the current economic environment.
- A preliminary review of utility rate-supported pressures indicates an average utility rate increase in the 7 per cent range which is consistent with last year's forecast.
- Staff is undertaking a thorough review of the base budget to challenge assumptions, identify efficiencies and reallocate money to fund high priority needs.
- Staff is currently preparing for Council's consideration a budget scenario which includes a 2009 tax increase for Regional program of 2.8 per cent. This would result in an overall tax increase in the 4.5 per cent range assuming a tax increase of 1.7 per cent for Region financed external organizations.

### DISCUSSION

#### 1. Background

The reason for this report is to provide Council with the proposed timelines and process for the 2009 Budget as well as a high level overview of the pressures being faced by the Region.

**2009 BUDGET PROCESS AND PRELIMINARY ESTIMATES****2009 Budget Process**

The following table outlines the proposed process and timelines for the development and approval of the 2009 Budget. The timelines were developed with the intention of bringing an Executive Summary of the Budget to Council in December which is consistent with the prior year's process.

1. Strategic Plan	May 2007
2. EMT Budget Process Review	April 2008
3. EMT Preliminary Review of Budget Pressures	May-June 2008
4. Development of Program Budgets	June-September 2008
5. Commissioner/Director Budget Workshop	July 2008
6. EMT Priority Setting	August-September 2008
7. CAO Reviews	October 2008
8. Executive Summary Presentation	December 2008
9. Police and Conservation Authorities Presentations	December 2008
10. Council Budget Review	January- February 2009

Consistent with last year, the foundation for the development of the Region of Peel's proposed 2009 Budget is the Strategic Plan V which was approved by Council in May 2007.

EMT first met in April of 2008 to discuss the 2009 Budget process and how best to ensure that Council has the full information they need to make an informed decision on an appropriate budget for 2009. Areas that staff felt should be strengthened to facilitate Council's review and approval of the budget process were:

- Providing Council with a longer term view of expected tax and utility increases;
- Providing Council with a prioritized list of new pressures along with an understanding of the processes and criteria used for prioritization;
- Completing a thorough review of the base budget to challenge assumptions and identify efficiencies in order to reallocate money to fund high priority areas.

The 2009 Budget process will focus on providing Council with staff's best advice on the appropriate balance between meeting community needs and maintaining fiscal strengths while minimizing the impact on taxpayers.

As in previous budget processes, The Peel Police Services Board will approve the Police submission prior to consideration of the budget by Council. In order to allow proper consideration and processing of the request, the Police budget will need to be received by October 31, 2008.

**2. Current Economic Environment**

The economic environment is placing increased pressure on the cost of municipal services. Significant increases are being experienced in energy, construction inputs and service contract costs. At the same time we are experiencing a lowering of interest rates and slower economic growth. The Ontario economy experienced negative GDP for the first quarter of 2008. If this happens for the second quarter we will be officially in a recession. The same pressures which are impacting our Regional budgets are also being felt by our taxpayers. As a result we are starting to experience increases in caseload levels in both our Ontario Works and Ontario Disability Support Programs.

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**3. 2009 Budget Document**

The 2009 Budget document format will be the same as that followed for the past two budget processes with only minor administrative refinements. The sections will again:

- Continue to demonstrate the services and levels provided in 2008;
- Indicate the base pressures in 2009 in order to maintain those same services and levels;
- Highlight challenges expected in the coming year;
- Explain anticipated new pressures;
- Highlight capital requirements;
- Establish the 2009 service contract;
- Discuss the results of the 2008 outputs and outcomes;
- Identify pressures not included in the 2009 budget.

**4. Preliminary Budget Pressures-Tax**

Our initial review of 2009 Budget Pressures identified net pressures of approximately \$58.3 million. These pressures can be further broken down into the following categories:

	<u>\$million's</u>
• Increase in the cost of providing 2008 level of service in 2009	\$22.3
• Final phase-out of previous tax rate management decisions related to Waste Management & Ontario Works	3.1
• Region funded external organizations pressures	16.9
• One percent increase in capital reserve contributions	7.3
• New pressures	31.2
• Assessment growth of 1.5%	( 11.0)
• ODSP/Toronto Tax Cost Reduction	<u>( 11.5)</u>
Net pressures	\$58.3
 Estimated tax impact	 8.0 per cent

The preliminary review of 2009 budget pressures translates into an estimated 8 per cent tax rate impact. This can be further broken down into 6.3 per cent for Regional programs and 1.7 per cent for Region funded external organizations after applying relative shares of expected assessment growth. Consistent with Council's direction over the last number of years there is no amount provided to fund GO Transit beyond development charge recoveries.

It should be highlighted that Region financed external organizations (Police, Conservation Authorities, and Municipal Assessment Corporation) pressures are based on the pressures forecast to occur in 2009 at the time that the 2008 Budget was developed. We anticipate that these organizations will also be impacted in varying degrees by the current economic environment and changing circumstances.

The initial review of base budget assumptions indicated that it would cost \$22.3 million more in 2009 to provide the 2008 level of service. This is equivalent to a 3 per cent tax increase. Staff is currently challenging this base increase to identify opportunities to reduce the base budget. This includes reviewing the validity of key assumptions and identifying additional efficiency and revenue opportunities.

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As identified during the 2008 Budget, a 1 per cent increase in reserve contributions is required for each of the next ten years to fund the non-growth tax-supported portion of the capital program. Given the recent increases in the price of construction inputs, we believe that the one percent increase will no longer be sufficient to fund the capital program. Staff is planning to bring a full report to Council in October which will provide Council with an updated assessment of the impacts of our capital program on both reserves and reserve funds. This assessment will be reviewed in light of the Region's share of the one time infrastructure funding recently announced by the premier in the amount of \$67 million.

New pressures have been identified in the amount of \$31.2 million. These pressures represent a combination of investments in tangible services visible in the community and internally focused items required to sustain front-line service delivery.

**5. Preliminary Budget Pressures- Utility**

	<u>\$million's</u>
• Increase in the cost of providing 2008 level of service in 2009	\$3.9
• Increase in capital reserve contributions	6.8
• New pressures	3.2
• Additional net revenue	<u>(10.8)</u>
Net pressures	\$3.1
 Estimated average utility impact	 7.0 per cent

The initial review of base budget assumptions indicated that it would cost \$3.9 million more in 2009 to provide the 2008 level of service. Consistent with the approach to budget development being followed with the tax-supported budget, staff is challenging the base budget to identify opportunities to reduce. This includes reviewing the validity of key assumptions and identifying additional efficiency opportunities. Due to the high percentage of fixed versus variable costs, opportunities in the short term may be relatively limited.

It is becoming clear that more predictive long-range modeling is required to assess the more complex and financially significant needs of our essential water and wastewater infrastructure. Given the financially significant size of the system components and rapidly increasing construction costs, long-term financial planning beyond the typical ten year horizon used on the tax-supported side will be required to avoid significant rate increases and/or major debt financing in the coming years. Staff is currently preparing a report for Council which will provide a high level assessment of capital financing needs for the utility rate supported programs.

**6. Regional Tax and Utility Targets: 2009-2011**

Based on our understanding of the pressures facing the Region of Peel and the current economic environment we are trying to limit tax and utility increases over the next few years as follows:

	<b>2009</b>	<b>2010</b>	<b>2011</b>
Tax-Regional programs	2.8%	2.3%	1.8%
Utility programs	7.0%	7.0%	7.0%

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Assuming increases for Region financed external organizations of 1.7 per cent per annum after their share of assessment growth, overall Regional tax increases would be 4.5 per cent, 4.0 per cent and 3.5 per cent in the next three years.

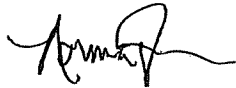
In order to deliver these targets, staff will need to revisit both the base increase and new budget pressures. The forecasted tax increase assumes no additional expenditures for GO Transit, excludes any impact from the Provincial /Municipal Review underway and assumes that the benefit of the uploaded ODSP/Toronto Tax costs will remain at the Regional level. It also assumes that the Region will continue to find annual efficiencies each year equivalent to a 1 per cent increase.

**7. Next Steps with 2009 Budgets**

Commissioners are currently working with departmental management teams to prioritize the new resource requests for both tax and utility-supported programs. A meeting is planned with the Executive Management Team for early September to agree on the high priority pressures which should be brought forward in the 2009 Budget for Council consideration. In prioritizing these items, management will rank the needs from highest to lowest according to agreed criteria. They will also characterize the urgency of the need and capacity of the organization to implement in order to propose how these pressures could be implemented over time.

**CONCLUSION**

The 2009 Budget Process will undertake a similar timeline as the 2008 Budget, with the budget being presented to Council in December 2008. As in past years, staff will continue to work towards delivering an overall budget that continues to minimize the implications on all residents and ratepayers while delivering the services and levels expected of the Region of Peel.



Norma Trim  
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**Approved for Submission:**

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D. Szwarc, Chief Administrative Officer

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c. Legislative Services