
DATE: October 1, 2009

REPORT TITLE: **2010 BUDGET PROCESS AND PRELIMINARY ESTIMATES**

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

RECOMMENDATION

That the timelines for the 2010 Budget Process as set out in the report of the Chief Financial Officer (CFO), dated October 1, 2009, titled “2010 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, 2009.

REPORT HIGHLIGHTS

- Timelines are recommended for the 2010 Budget process with the budget being presented to Council in December 2009
- A preliminary review of tax-supported Regionally controlled program budget completed on July 6 indicated a tax increase in the range of 8.6 per cent for Regionally controlled programs
- Further detailed reviews of tax-supported budget pressures, after accounting for reduced expenditures related to ODSP and GTA Pooling and utilizing draws from reserves, indicate a tax increase in the 2.5 per cent range
- Region financed external organizations budgets will be tabled with Council in December and would be added to form the overall tax rate impact
- A preliminary review of the utility rate-supported pressures indicates an average utility rate increase in the 5.2 per cent range which is consistent with last year’s forecast.
- Freezing discretionary spending accounts will save an estimated \$4.2 million
- 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 preparing for Council’s consideration budget scenarios which will further reduce 2010 tax increase for Regionally controlled programs of 2.5 per cent.

DISCUSSION

1. Background

The reason for this report is to provide Council with the proposed timelines and process for the 2010 Budget as well as high level overview of the pressures being faced by the Region.

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2010 Budget Process

The following table outlines the proposed process and timelines for the development and approval of the 2010 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 2009
3. EMT Preliminary Review of Budget Pressures	May – July 2009
4. EMT Review of 2010 Capital priorities	July – August 2009
5. EMT Priority Setting	July – August 2009
6. CAO Reviews	September – October 2009
7. Executive Summary Presentation	December 2009
8. Police and Conservation Authorities	December 2009
9. Council Budget Review	January – February 2010

Consistent with last year, the foundation for the development of the Region of Peel's proposed 2010 Budget is the Strategic Plan V which was approved by Council in May 2007.

EMT first met in April of 2009 to discuss the 2010 Budget process and how to best ensure that Council has the full information they need to make an informed decision on an appropriate budget for 2010. Areas that staff felt should be strengthened to facilitate Council's review and approval of the budget process were:

- Providing Council with an assessment of the impact of the current economic conditions on the Regions programs
- Providing Council with an assessment of the Infrastructure Stimulus Funding on capital reserves
- Streamlining the budget process with top down assumptions to eliminate base budget creep

The 2010 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 the 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 for proper consideration and processing of the request, the Police budget will need to be received by October 31, 2009.

2. Current Economic Environment

The economic environment is placing increased pressure on the cost of municipal services. Interest rates have declined and negative economic growth in 2008 has continued through the first two quarters of 2009. As reported to Council in the spring, employment levels in Peel continue to decline. The same pressures which are impacting the Regional budgets are also being felt by the Region's taxpayers. While the economy is beginning to show some stability and possible return to growth, there is a time lag between a return to growth and increasing employment and reduction in caseloads in both Ontario Works and Ontario Disability Support Programs (ODSP). The current economic environment is also negatively affecting revenue streams for Peel's Waste Management and Water and Wastewater Programs.

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3. 2010 Budget Document

The 2010 Budget document format will be the same as that followed for the past three years with only minor administrative refinements which include the addition of a program summary page. The sections will again:

- Continue to demonstrate the services and levels provided in 2009;
- Indicate the base pressures in 2010 in order to maintain those same services and levels;
- Highlight challenges expected in the coming year;
- Establish the 2010 service contract;
- Discuss the results of 2009 outputs and outcomes;
- Identify pressures not included in the 2010 budget.

4. Preliminary Budget Pressure - Tax

The initial review of the 2010 Tax supported Regionally controlled budget conducted on July 6, 2009 resulted in a tax increase in the range of 8.6 per cent.

In order to minimize the overall impact on the taxpayers, especially in light of the economic times, EMT directed all discretionary spending accounts be frozen at 2009 levels which resulted in savings of \$4.2 million (one half a percent tax increase). Exceptions were made where the Region has contractual obligations in place with third party vendors (e.g. waste management contracts). Programs will be required to find efficiencies to offset additional inflationary pressures.

In addition, EMT and staff worked diligently to reduce the Regionally controlled budget by challenging underlying assumptions, identifying pressures, reallocating resources and exploring funding options. As a result, the net budget pressures for Regionally controlled programs were reduced to \$19.6 million which is equivalent to 2.5 per cent range.

It should be highlighted that Region financed external organizations' pressures are not included in this report as these organizations are working through their respective budget processes and will report to Council as part of the 2010 Budget process.

Consistent with Council's direction over the last number of years there is no amount provided to fund GO Transit beyond development charge recoveries.

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The Regionally controlled tax supported net budget pressures of \$19.6 million (2.5 per cent tax impact) can be broken down into the following categories:

	<u>\$millions</u>
• Increase in the cost of providing 2009 level of service in 2010	13.8
• Final phase out of previous tax management decisions related to Long Term Care	0.9
• Elimination of parental contribution for low income families	6.5
• Recessionary pressures	
o Human Services	16.9
o Waste Management	<u>13.5</u>
	30.4
• One percent increase in capital reserve contribution	7.8
• New pressures	<u>4.6</u>
Total Pressures	\$64.0

These pressures are being partly offset by the following:

• Assessment growth of 1.5% (Regional program)	(7.1)
• ODSP/Toronto Tax Cost Reduction	(23.8)
• Draw from reserves to offset Waste Management recessionary pressures	<u>(13.5)</u>
Net Budget Pressures	\$19.6

Estimated Tax Impact **2.5 per cent**

As outlined above, the recessionary pressures account for \$30.4 million or approximately 50 per cent of the total budget pressures. As outlined in the semi-annual report to Council, these pressures include increasing caseloads for Ontario Works and ODSP as well as declining Waste Management revenues. The benefit of the uploaded costs for ODSP and GTA Pooling has been applied to offset recessionary costs in Human Services programs as well as impact of eliminating parental contributions for low income families to ensure compliance with Provincial legislation.

As identified during the 2008 Budget, an increase in reserve contributions equal to a one percent tax increase for each of the next ten years is required to fund non-growth tax-supported portion of the capital program. Given the changing economic conditions and Infrastructure Stimulus Funding, staff is preparing an assessment of the impacts of the capital plan on reserves and will bring a full report to Council in November. Of note, the Infrastructure Stimulus Funding primarily benefited the Utility capital program; given this, the staff has built the one per cent tax increase in capital reserve contribution into the 2010 budget.

New pressures in the amount of \$4.6 million have been identified. 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.

Current budget planning does not include potential financial impacts related to Harmonized Sales Tax, costs associated with responding to H1N1 virus or changes to Council mandated services.

As reported to Audit Sub-Committee in June 2009 staff are conducting detailed process reviews within Paramedic Services – Make Ready process, Public Health – Immunization Records process and Human Services – Service Integration process. The purpose of the process

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reviews is to identify more effective and efficient ways to deliver services. A status report is planned for the November 2009 Audit Sub-Committee.

As mentioned, staff is currently working on identifying further budget reductions by challenging budget assumptions, identifying efficiencies and allocating funds to higher priorities. Staff is also working on budget funding scenarios which will be provided to Council for their deliberations.

5. Preliminary Budget Pressure – Utility

The initial review of the utility supported programs identified the following pressures:

	<u>\$millions</u>
• Increase in the cost of providing 2009 level of service in 2010	\$0.8
• Increase in capital reserve contributions (York related)	1.3
• New pressures	<u>0.4</u>
Net pressures	\$2.5
 Estimated average utility Impact	 5.2 per cent

As previously reported to Council, average consumption for both residential and ICI customers continues to decline. In 2009 the rate of decrease accelerated primarily due to several factors such as weather, ongoing conservation efforts and the economy.

In 2008, initial long-range financial modeling for water and wastewater infrastructure identified a need to increase utility rates by three per cent annually to finance the expanding state of good repair budget and mitigate against debt financing. In 2009 Peel received Infrastructure Stimulus Funding, with a significant allocation directed to fund essential water and wastewater capital works. As a result, the initial review of the utility supported programs doesn't include any increases to Peel's reserve contributions. Staff are assessing the impact of the stimulus funding and other changes to the capital program and will provide Council with a high level assessment of capital financing needs and reserve analysis for the utility rate supported programs.

Consistent with the approach to budget development being followed with the tax supported budget, staff is challenging the base budget to identify opportunities for further reductions. 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.

6. Regional Tax and Utility Targets: 2010 - 2012

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

	2010	2011	2012
Tax – Regional programs	2.5%*	2.0%*	2.0%*
Utility programs	5.2%	7.0%	7.0%

* Note: excludes externally financed organizations including Police, Conservation Authorities and Municipal Property Assessment Corporation

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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, 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 2010 Budgets

Commissioners are currently working with departmental management teams to prioritize the new resource requests for both tax and utility-supported programs. 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.

Final budget adjustments are being processed and preparation of the 2010 Budget document and Council presentations is underway.

CONCLUSION

The 2010 Budget Process will undertake a similar timeline as the 2009 Budget, with the budget being presented to Council in December 2009. 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.

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Approved for Submission:

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