
For Information

REPORT TITLE: 2020 Update of the Region of Peel's Financial Condition

FROM: Stephen Van Ofwegen, 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/Aaa credit rating has been reaffirmed by Standard & Poor's Global Ratings and Moody's Investors Service, making Peel one of twelve Canadian municipalities to hold that rating.
 - Actions implemented from the 2019 Financial Scorecard include updating the Asset Management Strategy and Debt Management Policy, in addition to presenting a new Capital Financing Strategy to Council.
 - The Financial Scorecard shows the Region is within acceptable ranges for eight of the ten financial indicators. Recommended actions for ten indicators are included in Appendix 1.
 - The 2020 Financial Scorecard includes actions to mitigate longer term risks to ensure the Region continues to remain financially healthy.
 - The Region's overall financially healthy state will be leveraged to support the impact of the COVID 19 pandemic on critical services to the community as well as the financial impact to its residents and business community.
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DISCUSSION

1. Background

In 2013, Regional Council approved the first Long Term Financial Planning Strategy (the "Strategy") to address the increasing financial pressure that Peel's growing population and evolving economy is putting on its services and programs. The Strategy provides a long term perspective to guide decision making in support of the Region's overall financial condition and demonstrates the required balance between financial sustainability, financial vulnerability and financial flexibility. After five years (2013 to 2017) of having the Strategy in place, an independent assessment was conducted by Ernst & Young to ensure the Strategy remains relevant and reflects the Region's priorities. A report titled "Update of the Long Term Financial Planning Strategy" was presented to Council in April 2019, which included findings of the health assessment as highlighted below:

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- There has been an overall improvement in financial health as measured by the existing Strategy, demonstrating a fiscally healthy Region that has been able to achieve the stated objectives of its financial strategy.
- Through actions taken as a result of monitoring the Financial Scorecard and applying the Strategy, Peel has been able to maintain its strong credit rating.
- Compared to peer jurisdictions around Canada, Peel's Strategy is more mature and comprehensive. Therefore, updates as part of the Strategy refresh are related to re-aligning with the Region's 2015-2035 Strategic Plan, integrating the strategy with the Integrated Planning Framework, and incorporating forward-looking quantifiable indicators.

a) Impact of the COVID 19 Pandemic

The Region of Peel's overall financial health will be leveraged to help mitigate the impact of the COVID 19 pandemic on the sustainability of the Region's critical services for its community, and its economy. At the time of the writing of this report, there was a significant downturn in the economy as well as strategies implemented by the Region and the local municipalities to support those who might be financially challenged to pay property taxes and water/wastewater bills.

A special report, titled "Region of Peel Measures to Provide Financial Relief for Taxpayers and Ratepayers and to Support Local Municipal Measures (Covid-19 Pandemic)" was presented to Council on March 26, 2020 regarding the impacts of various scenarios that delayed or deferred property tax and utility rate bill collection, penalties and interest. In addition, a presentation was also made to Council on April 9th, 2020 that outlined the high level financial risks that the Region will be facing as a result of the COVID 19 pandemic for the 2020 fiscal year. While short term cost pressures are being experienced from Paramedic Services, Long Term Care, Public Health, Homeless shelters, Housing, etc., these may be alleviated in part by funding from the Federal and Provincial governments with the remainder address through Peel's stabilization reserves.

In addition, given the high quality nature of the Region's investment holdings, investment revenue is expected to remain mostly stable, or decrease marginally. Further, short-term holdings may be increased to protect against rising volatility and potentially higher liquidity requirements over the coming months, which could in turn contribute to downward pressure on earnings over the short-term. Property taxes, utility rates and development charges are expected to experience delayed collection and/or potential revenue reduction over the next months. As there is significant uncertainty resulting from the COVID 19 pandemic, the impact of these risks will be assessed and brought back to Council once more data is available.

The remainder of the report was written prior to the outbreak of the pandemic and focuses on core long term financial sustainability indicators.

b) Status of the 2019 Financial Scorecard Recommendations

To assess the Region's financial health, the financial scorecard was refreshed to incorporate forward looking quantifiable indicators in three key areas; financial sustainability, financial vulnerability and financial flexibility.

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The 2019 Financial Scorecard was reported to Council in April 2019. It indicated that the Region has been able to maintain its strong credit rating and included the following actions for implementation to maintain its financial condition as summarized in Table 1 below:

Table 1: Summary of 2019 Actions to Address Risks

Theme	Action to Mitigate Risk	Status of Action
Dealing with service level pressures	Implement the Asset Management Strategy to be ISO55000	The Asset Management Strategy continues to be updated to align with ISO55000 industry best practices
	Develop a Capital Financing Strategy to better use funding resources such as capital reserves, debt, development charges and external funding	Capital Financing Strategy to be brought forward at the May 14, 2020 Regional Council Meeting
	Update the Debt Policy to ensure flexibility for capital priorities	Debt Management Policy to be brought forward at the May 7, 2020 Audit and Risk Committee meeting
Decline in non-residential tax revenue	Work with the Association of Municipalities of Ontario (AMO) and the Federation of Canadian Municipalities (FCM) to educate senior levels of government and develop an advocacy strategy	The impact of the changing nature of employment on municipalities was presented to AMO on August 19, 2019. "Rethinking Municipal Finance for the New Economy" was shared with FCM in August 2019
Increased reliance on external funding	Develop an advocacy strategy to obtain/retain fair share funding from the Province and monitor the levels of external funding to ensure there is sufficient flexibility in the reserves to minimize significant service disruptions	Council endorsed positions that call for sufficient funding for these services to meet population growth and the needs of the community

c) Long Term Financial Planning Strategy supporting Council Outcomes

The 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 Strategy is being used to inform decision making and to support long term service outcomes and will continue to help provide Council with financial context as it identifies potential risks, considers new priorities, program strategies and policy changes as noted above.

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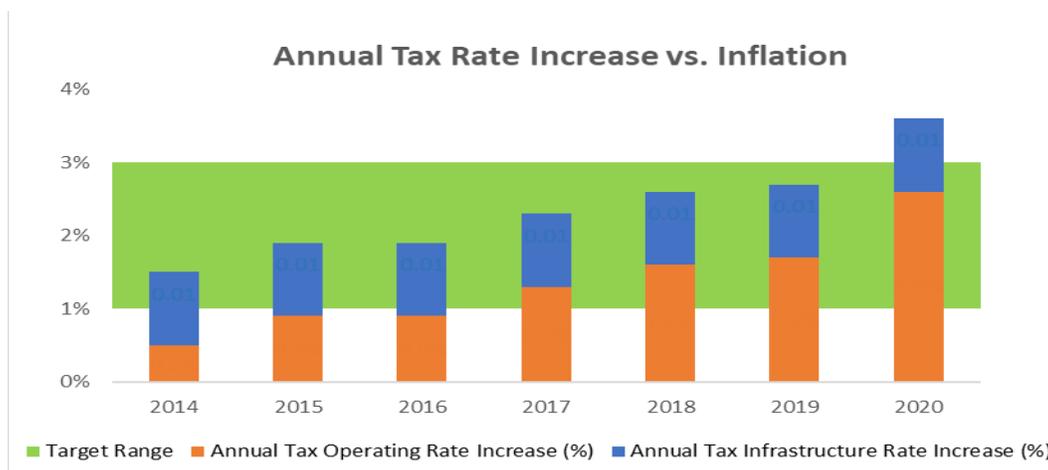
2. 2020 Financial Scorecard

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

i. Financial Sustainability:

a) Net Tax Levy Increase

Since the implementation of the Strategy in 2013, the net tax levy increase has averaged 2.4 per cent between the years 2014 to 2020, which is in line with the Bank of Canada inflation target range of 1 to 3 per cent. During the 2020 Budget, a net levy increase of 4.3 per cent was forecasted for 2021. The Strategy recommends that tax increases be in line with inflation to demonstrate respect for the taxpayer. However, given the economic effects of the COVID 19 pandemic and the deferral of the Provincial budget announcement until the fall of 2020, a budget target was not recommended to Council. Staff have proposed that the 2021 Budget be developed recognizing the economic impact of COVID on Peel residents and businesses. The Region and externally financed organizations will work together to facilitate Council's direction for a responsible and sustainable 2021 Budget.



b) Capital Reserves as a Percentage of 20-Year Capital Plan

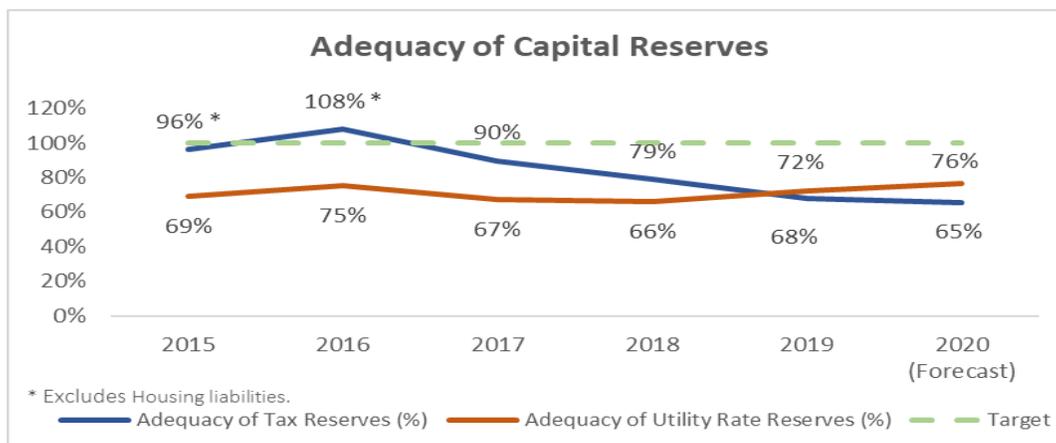
Over the past five years, Council has approved increases to the annual contributions to both the Tax Supported and Utility Rate Supported capital reserves. However, the gap between the reserves and the forecasted infrastructure requirements continues to experience a funding shortfall.

Based on the most recent reserve adequacy assessment, current Tax Supported reserve levels and contributions have a \$1.8 billion shortfall compared to the

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forecasted 20-year (2020-2039) capital requirements including the social housing stock. The negative trend in the adequacy of tax reserves reflects moving to a 20-year horizon, Council approval of the Housing Masterplan and Long Term Waste Management Plan as well as better asset management data on tax supported infrastructure. To address the long term under-funding of the Tax Supported capital requirements, a one per cent infrastructure levy was included and approved in the 2020 Tax Supported budget, which represents approximately \$10.4 million of the tax levy increase. An annual increase of one per cent infrastructure levy from 2021 to 2026 is estimated to close the funding gap.

Based on the most recent assessments of Peel's water and wastewater infrastructure, approximately \$5.9 billion will be required over the next 20 years to predominately finance the state of good repair of water and wastewater assets. This level of investment will maintain current service levels to the public and manage infrastructure risks. To mitigate the current unfunded shortfall of \$1.4 billion, an increase of a 5 per cent infrastructure rate or \$18.5 million has been included and approved in the 2020 Utility Rate Supported budget. Analysis shows an annual increase for two more years until 2022 will close the current funding gap although consideration will be given to spread the needed increase over a longer time period due to the economic of COVID.



c) Asset Health Score

The current overall status of Peel's infrastructure is "Good" due to Council's on-going proactive funding of infrastructure requirements and the continued support of Peel's industry leading strategic asset management approach. However, the reinvestments necessary to maintain the service levels that the public expects continue to increase. This is largely driven by aging infrastructure, additions of infrastructure to address growth, climate change and Council priorities, as well as renewed data and information on the existing infrastructure. To ensure that Peel's infrastructure is maintained, assessed and supported, it is recommended that Peel continues to mature its current asset management program.

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ii. Financial Vulnerability:

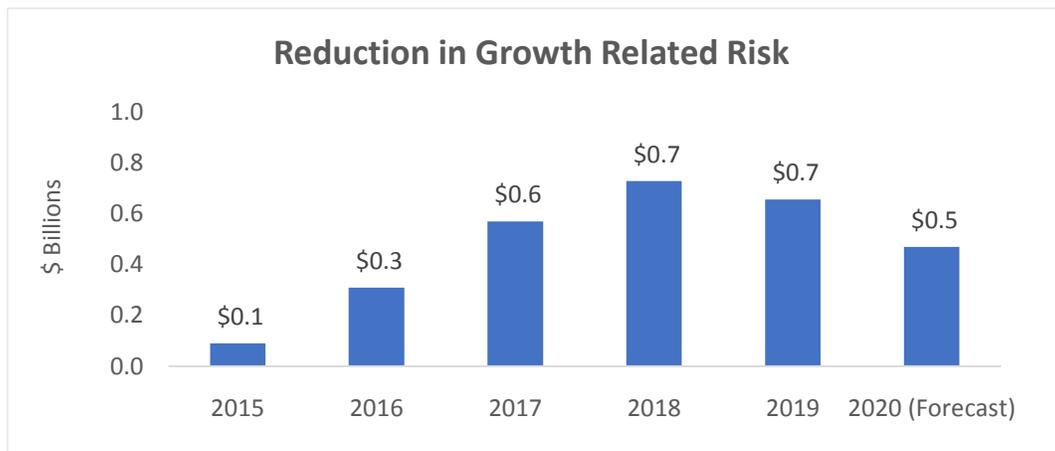
a) Reduction in Financial Risk Associated with Growth

The outcome of the Peel's Growth Management Program is focused on achieving a financially sustainable and complete community. This outcome will be achieved through delivery of four strategies, of which the strategy of managing revenues and expenditures has led to deferred debt and expenditure reductions totalling \$656 million compared to the 2015 DC Background study excluding the impact of recent decisions by the Local Planning Appeal Tribunal (LPAT). Including the LPAT decision reduces the number to \$602 million.

The Region's 2020 Development Charge By-law update project is well underway. Staff have been working on the DC Background Study with the intent to bring this work to Council in July 2020; however, given the COVID-19 pandemic and the changing environment in which we are working, staff will report back in May 2020 with an update and proposal for revised timelines.

Bill 108: *The More Homes, More Choice Act, 2019* introduced changes to the *Planning Act, the Development Charges Act, 1997* and other legislation that have significant implications for municipalities. It is anticipated that the negative impact on the Region's cash flow and potential revenue loss as a result of the development charges freeze and staggered payments may have long-term negative implications for the Region's credit rating profile, debt capacity and financial flexibility, impacting its ability to respond to fiscal challenges.

Staff proposed a Region's Development Charge Interest Rate Policy on March 11, 2020. This policy strikes a balance between mitigating financial risks associated with servicing growth while advancing Council strategic priority of promoting an increase in the supply of affordable housing. The policy was deferred pending further consultation with the local municipalities.



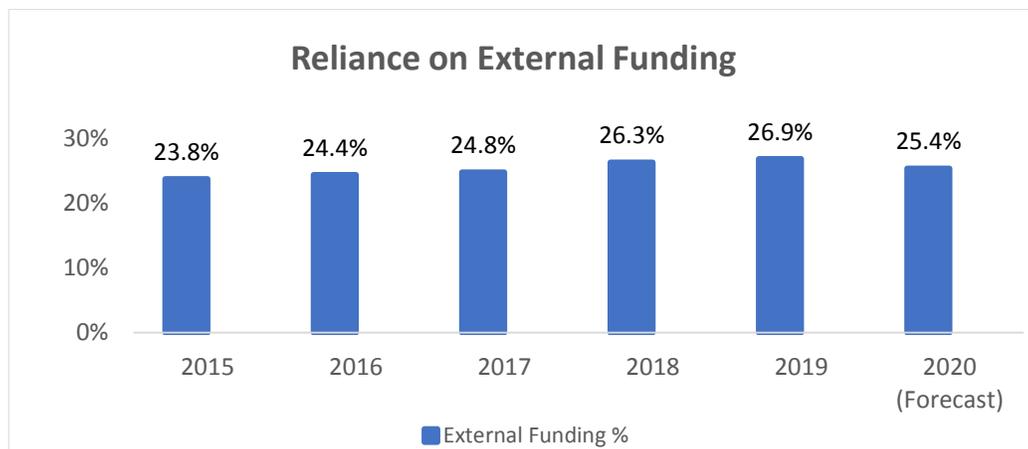
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b) Reliance on External Funding

Peel is mandated to deliver many Provincial programs such as Child Care, Housing Support, Ontario Works, Paramedic Services and Public Health. Funding related to these and other programs have increased over the past five years from \$483.8 million in 2015 to \$670.3 million in 2019, an increase of 38 per cent. This increased funding has supported Peel in its provincially legislated obligations.

However, in 2019 the Province of Ontario reduced funding to several services for 2020. As presented in the 2020 Budget, 25 per cent or \$651 million of the Region's operating expenditures is funded by external funding. The 2020 Budget reflects a \$19 million reduction in funding from the Province as compared to 2019 Budget.

To minimize vulnerability, an investment of \$9.2 million in property tax dollars was approved by Regional Council to maintain core service levels in impacted services. However, many of the Provincial funding envelopes for services such as Paramedics, do not reflect inflation or growth in the year it happened which can impact service levels, and service delivery models.



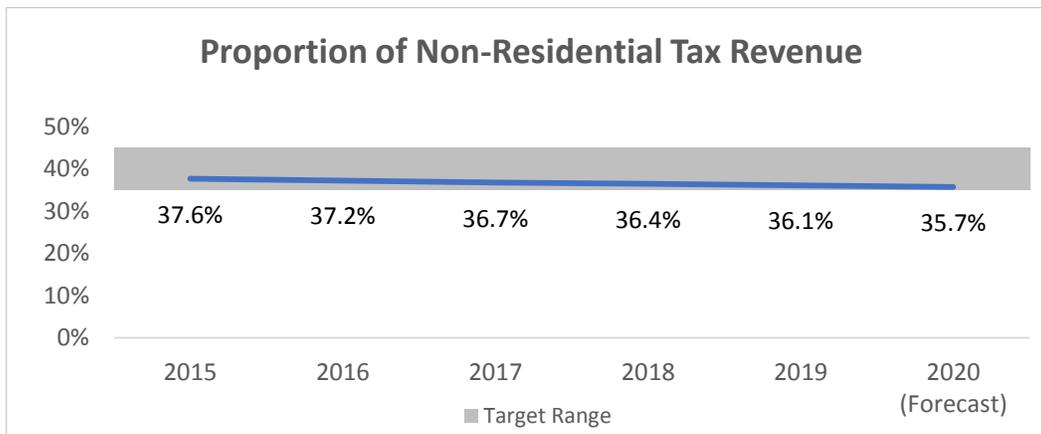
c) Proportion of Non-Residential Tax Revenue

Over the past five years, the proportion of tax revenue from the non-residential sector has steadily declined from 37.6 per cent in 2015 to 36.1 per cent in 2019 primarily due to the changing nature of employment. The tax burden continues to shift from the non-residential sector to the residential sector resulting in greater share of the tax burden falling on Peel residents.

In 2019, the Region of Peel commissioned the Mowat Centre to complete a research paper "Rethinking Municipal Finance for the New Economy". The paper reviewed the implications of the changing nature of employment on municipal fiscal sustainability and resulting shift in the property tax burden to residents. The findings were presented at the August 2019 AMO conference and with FCM.

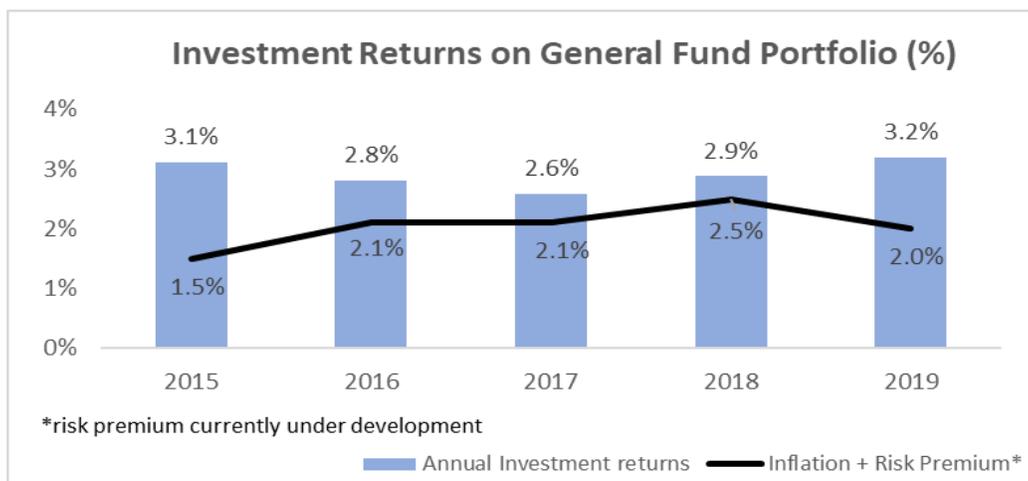
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On February 13, 2020 Regional Council adopted Resolution 2020-87. The resolution authorized staff to request from the Ministry of Finance regulatory authority to pass a by-law pursuant to subsection 313(1.3) of the *Municipal Act, 2001*, as amended, (the "Ministerial Regulatory Authorization") to diminish the vacant and excess land subclass reduction for the commercial and industrial tax classes to 15 percent in 2020 (the "Diminished Subclass Reduction") and to eliminate the reduction thereafter. It is anticipated that this tax policy may help mitigate certain risks associated with the tax burden shift.



d) Investment Returns

During 2019, investments generated a return of 3.2 per cent, with a four-year average return of 2.9 per cent. Portfolio returns have been above inflation, which has averaged 2.2 per cent over the past four years, helping preserve the purchasing power of the Region's funds and meeting future funding requirements. In 2017, Regional Council approved Peel's Cash Management Strategy which permitted a more active cash management approach, creating better opportunities to improve investment returns.

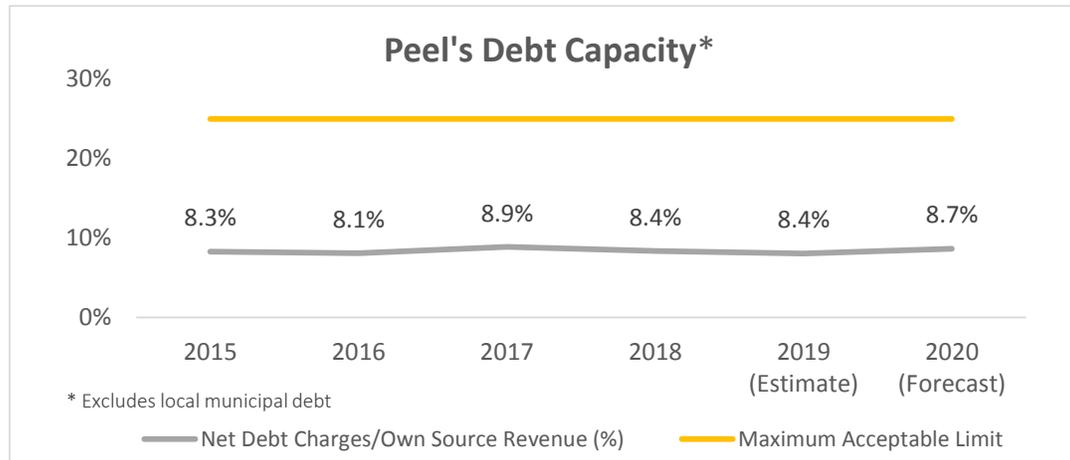


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iii. Financial Flexibility:

a) Debt Capacity

The Annual Repayment Limit has been stable, below maximum acceptable limit. The year over year decline is a result of growing revenues, and no additional own source debt added during 2019. The forecasted increase in 2020 is based on increasing capital spending on growth related infrastructure, as well as potential pressure on DC revenues (e.g. Bill 108).



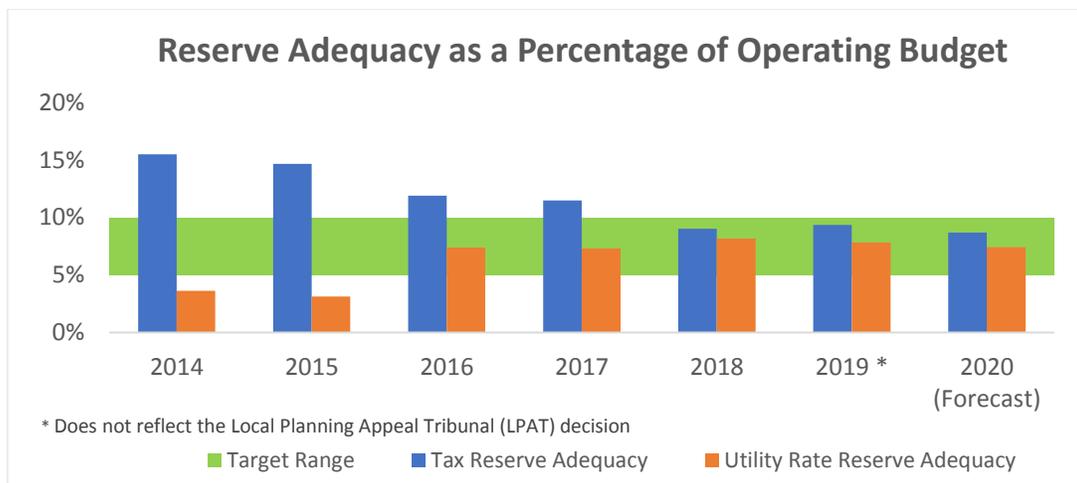
b) Reserve Adequacy

The balance of the Tax Supported Rate Stabilization Reserves as at December 31, 2019 was \$141 million reflecting the 2019 year-end recommended surplus allocations, or 9.4 per cent of the 2020 Tax Supported Operating Budget, which is in compliance with the prescribed requirement.

The balance of the Utility Rate Supported Stabilization Reserves as at December 31, 2019 was \$44 million or 7.9 per cent of the 2020 Utility Rate Supported Operating Budget, which is in compliance with the prescribed requirement.

Over the past five years, Peel has made progress in ensuring its tax and utility rate reserves fall within the target range of the Region's operating budget.

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c) Liquidity

The Region continues to maintain exceptional liquidity. As the capital cash flow forecasting improves, liquidity levels may be strategically reduced helping optimize the long term returns to the Region's investment portfolio.

CONCLUSION

The Long Term Financial Planning Strategy has helped Peel remain financially healthy since its adoption in 2013 and will continue to help guide Peel through challenging economic times. The updated Strategy and 2020 Financial Scorecard include a number of actions that will help Peel remain financially sustainable over the long term and maintain its strong credit rating.

APPENDICES

Appendix I – 2020 Financial Scorecard

For further information regarding this report, please contact Norman Lum, Director, Business & Financial Planning, 905-791-7800 Ext. 3567 or Norman.Lum@peelregion.ca.

Authored By: Norman Lum, Director, Business & Financial Planning

Reviewed and/or approved in workflow by:

Department Commissioner and Division Director.

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Final approval is by the Chief Administrative Officer.

A handwritten signature in black ink that reads "Nancy Polsinelli". The signature is written in a cursive style with a large initial 'N' and a distinct 'P'.

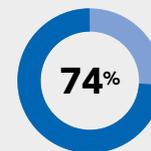
N. Polsinelli, Interim Chief Administrative Officer

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2020 Financial Scorecard

Financial Principles	Indicator	Target	Performance	Risk Trend	Future Actions
Financial Sustainability					
Respect the taxpayer	Net Tax Levy Increase	1-3%	<input checked="" type="checkbox"/>	Neutral	Action: 2021 budget to be developed recognizing evolving economy Impact: Respecting the taxpayer
Ensure the Capital Plan is sustainable	Capital Reserves as a % of 20 Year Capital Plan (tax and utility rates)	100%	<input checked="" type="checkbox"/>	Tax: Negative	Tax Action: 1% infrastructure levy from 2020 to 2026 inclusive Utility Action: 5% infrastructure levy from 2020 to 2022 inclusive Tax and Utility Impact: Sufficient funds to meet State of Good Repair
Manage assets			<input checked="" type="checkbox"/>	Utility: Negative	
Deliver value for money	Asset Health Score	Good	<input checked="" type="checkbox"/>	Positive	Action: Mature Peel's asset management practice Impact: Realize greater asset value

Focus GTA Spring 2019 Value for Tax Dollars



Credit Ratings

Aaa

AAA

Financial Principles	Indicator	Target	Performance	Risk Trend	Future Actions
Financial Vulnerability					
Users pay where appropriate	Reduction in financial risk associated with growth	Lower Debt vs Forecast	<input checked="" type="checkbox"/>	Positive	Action: Implementing Peel's Growth Management program Impact: Lower the projected DC related debt
Work with local municipalities to manage growth and support economic viability of the community	Reliance on external funding	Funding meets Growth & Inflation	<input checked="" type="checkbox"/>	Negative	Action: Assess impact of Provincial funding announcements & support Council's advocacy efforts Impact: Meet service needs in Peel
	Proportion of non-residential tax revenue	35-45%	<input checked="" type="checkbox"/>	Negative	Action: Support Council advocacy for diversified revenue tools Impact: Improve municipal fiscal sustainability
Make responsible investments	Investment returns	Above inflation	<input checked="" type="checkbox"/>	Positive	Action: Continue to identify opportunities to optimize returns Impact: Improved investment returns support funding of Peel's capital program

Financial Principles	Indicator	Target	Performance	Risk Trend	Future Actions
Financial Flexibility					
Mitigate significant fluctuations in tax and utility rates	Debt capacity	Below 25%	<input checked="" type="checkbox"/>	Neutral	Action: Update Debt Policy & Capital Financing Strategy Impact: Improved ability to leverage debt appropriately for Peel's infrastructure requirements
	Reserve adequacy	5-10%	<input checked="" type="checkbox"/>	Tax: Positive	Action: In 2020 Council approved use of reserves to address economic challenges Impact: Support the residents and businesses
<input checked="" type="checkbox"/>			Utility: Positive		
Borrow when appropriate for capital infrastructure	Liquidity	>120%	<input checked="" type="checkbox"/>	Neutral	Action: Continue to improve capital cash flow forecasting process Impact: Having cash on hand to meet capital spending requirements