

# The Regional Municipality of York

Committee of the Whole  
Finance and Administration  
May 14, 2020

Report of the Commissioner of Finance

## 2021 Budget Direction

### 1. Recommendations

Council endorse the proposed timeline for the development and approval of the 2021 budget, with 2021-2022 budget to be tabled with Council in February 2021, with consideration of approval in March 2021.

### 2. Summary

This report seeks Council endorsement of the proposed timeline for the 2021 budget. It also outlines general guidelines for budget development.

### 3. Background

#### **2021 will be the third year of the 2019-2022 multi-year budget**

In December 2019 Council approved the second year of the multi-year budget and endorsed an outlook for the following two years. The outlook forms the basis for budget development for the following two years and is updated as required as part of the annual budget cycle.

A multi-year budget provides several advantages:

- Enables better coordination of budgeting and strategic priorities
- Provides greater certainty for departments in managing their expenditures
- Improves fiscal discipline.

On December 19, 2019, the 2020 budget was approved with a tax levy increase after assessment growth of 2.96% and an outlook for 2021 and 2022 of 2.96%.

Council will continue to be presented with an annual budget for consideration and approval, along with an outlook for endorsement, as shown in Table 1.

**Table 1**  
**Annual Budget Approval**

Annual Budget Year	Years of Endorsed Outlook
2021	1
2022	0

The outlook captured budget pressures, ongoing savings identified through the 2020 budget process and contributions for future infrastructure needs including accelerated growth-related roads capital.

**Council has endorsed an outlook for the 2021-2022 budget**

As noted above, an outlook for 2021 to 2022 was included as part of the 2020 multi-year budget.

At its meeting of December 19, 2019 Council endorsed a tax levy increase outlook of 2.96% for 2021 and 2022.

Table 2 shows the gross expenditures, revenues and net expenditures that were included in the 2020-2022 approved budget and endorsed outlook. The 2020 budget included almost \$2.5 billion in operating costs, growing to \$2.6 billion by 2022. Of those costs, about 34 per cent are for salaries and benefits, 34 per cent for program costs, 21 per cent for contributions to reserves, and 11 per cent for debt servicing costs. The tax levy funds almost half the total operating spending, with non-tax revenues funding the other half. Non-tax revenues include grants and subsidies, recovery from user rates, development charge reserve draws and other fees and charges.

**Table 2**  
**2020-2022 Approved Budget**

	2020 Approved Budget	2021 Outlook	2022 Outlook
<b>Tax Increase</b>	2.96%	2.96%	2.96%
<b>Gross Expenditures</b>	\$2.5B	\$2.5B	\$2.6B
<b>Revenues</b>	\$1.3B	\$1.3B	\$1.3B
<b>Net Expenditures</b>	\$1.2B	\$1.2B	\$1.3B

As a result of the COVID-19 pandemic, redistribution of the expenditures included in the outlook may be required to reflect changing priorities, and support Regional emergency response and recovery efforts, and eventually, a post-recovery return to stability. Also, given the current challenging economic circumstances and potential hardship for many residents and businesses in York Region, Council may wish to consider a tax levy increase lower than the 2.96% outlook for 2021 that was endorsed as part of the 2020 budget. Any reduction of the tax levy increase would require adjustments to expenditures and/or revenues included in the approved outlook. This could include service level reductions, new revenue sources or financial risk tolerance adjustments.

## **4. Analysis**

### **The 2021 budget will need to address a greater level of uncertainty and additional pressures resulting from the COVID-19 pandemic**

The COVID-19 pandemic is expected to result in lower-than-forecast economic growth and significantly impact businesses and taxpayers. The needs of vulnerable populations in York Region have become more pronounced, resulting in greater demands on the Region's social services and support programs. The length of the pandemic and duration of social restrictions are presently unknown. As well, it is uncertain how long it will take to recover to previous levels of economic activity and what the path to recovery will look like. The eventual return to a "new normal" may have significant implications for Regional services. While the Region has well established financial stewardship practices and policies, this situation is unprecedented and presents several challenges that need to be addressed to ensure continued prudent financial management.

### **Several Regional revenue sources may be affected by the COVID-19 pandemic**

Several risks and uncertainties exist regarding the Region's revenue sources for the 2021 budget. The level of assessment growth revenue is uncertain, and due to tax relief measures to support local municipalities, there is potential for foregone investment income in 2020. It is also possible that assessment growth revenue could be lower than previously forecast for years beyond the 2021 budget timeframe.

About 17 per cent of the Regional budget is funded by grants and subsidies from senior levels of government. On March 12, 2020, the Province announced that it would keep municipal funding levels for public health units in calendar year 2021 at the same level as calendar year 2020. Currently, there is no other definitive information on potential changes to the senior government grant funding to the Region.

The Province of Ontario released an Economic and Fiscal Update on March 25, 2020 and has committed to providing a full multi-year budget by November 15, 2020. There may be changes to the funding available for Community and Health Services, as well as potential change to the provincial gas tax allocation in light of lower gas tax collection.

Other revenues could also decrease. Transit fare revenues could be lower than previously anticipated due to reduced ridership. Fine revenues may also be impacted due to closure of the Region's Provincial Offences Act courts.

The Region anticipates receiving federal and provincial funding to help offset COVID-19 - related expenditures. Information on federal and provincial funding for the Region's emergency response is very limited at this time. The Region was recently allocated one-time provincial funding of \$4,981,700 through the Community Homelessness Prevention Initiative under the Social Services Relief Fund. The Region also received provincial funding in March and April totalling \$75,000 to assist long-term care homes with increased costs for pandemic response. The Ministry of Health also confirmed that it would fund extraordinary expenses for the COVID-19 Public Health response, although, no specific allocation has been provided to York Region.

### **The response to COVID-19 will have short and longer term impacts on the Region's expenditures**

There is also uncertainty around COVID-19 emergency response costs. The Region's Public Health branch, along with other areas in the Community and Health Services department, has experienced significant demands as a result of this pandemic. The Region is focusing on providing direct support as well as working through community agencies in providing supports to vulnerable populations. There may also be indirect costs for the Region; for example, increased costs for waste management due to higher volumes. Financial impacts to the Region include higher costs and lower revenues than were anticipated at the time the 2020 budget and 2021 outlook was prepared.

### **The Region's COVID-19 response costs were \$13.8 million as of April 16 and could grow to \$100 million, or nine per cent of the tax levy budget, by year end**

Short term implications to the Region's finances will depend upon the length of the emergency and magnitude of the Region's emergency response. On April 16, 2020, a memorandum on the Financial Impacts of COVID-19 was presented to Committee of the Whole. An updated memorandum is included in the May 14 Committee of the Whole agenda.

Initial analysis of Regional financial information suggested that unexpected costs and reduced revenue associated with the COVID-19 emergency had a cumulative impact of \$13.8 million, or approximately \$3.65 million per week since the emergency began. Table 3 provides a summary of COVID-19 impacts. Additionally, there are potential impacts to the current assumptions for the Region's financial sustainability if the Region draws upon sustainability reserves to respond to unexpected pressures.

**Table 3**  
**Estimated Impacts of COVID-19**

Area	Description	Cost (\$ Millions)	
		At April 16	Weekly Impact
Payroll costs	Staff-related costs resulting from COVID-19 (e.g., staff time, overtime, additional staff). Excludes banked time.	4.10	1.34
Non-payroll net costs	Includes non-staff expenditures and purchase orders (e.g., health-related materials, training)	3.90	0.78
<b>Sub-Total Direct Costs</b>		<b>8.00</b>	<b>2.12</b>
Waste management	Increased processing costs resulting from higher tonnage of residential waste collection and blue box contamination	0.14	0.06
Transit	Net impact of lower revenues from reduced ridership and service reductions as of April 5 (excludes additional facility and bus cleaning costs)	4.10	0.54
Water and Wastewater	Reduced revenues from deferral of the April 1 planned rate increase	1.26	0.63
Court Services	Estimated reduction in revenues from Provincial Offences fines during Courts closure. Amounts to be recovered will be determined once courts re-open.	0.30	0.30
Other	<i>To be included in future updates - Impacts where information is not yet available (e.g., other potential expenditures and savings, new initiatives)</i>	TBA	TBA
<b>Sub-Total Indirect Costs</b>		<b>5.8</b>	<b>1.53</b>
<b>Total</b>		<b>13.80</b>	<b>3.65</b>

*Note: Information in the table represents values presented to the Committee of the Whole on April 16.*

If the current emergency extends until the end of June and the recovery period is expected to last for the remainder of the year, the current cost trends suggest the impacts could exceed \$100 million in 2020, equivalent to over nine per cent of the tax levy budget. The figures are early estimates and will continue to be updated as information becomes available. The May 14 Committee of the Whole agenda includes a memo on the Financial Impacts of COVID-19 that reflects estimated impacts up to the end of April, 2020.

Into the COVID-19 recovery phase, longer term implications and questions will need to be addressed through the budget process. Adjustments to Regional services may be required to meet changing needs of residents and businesses and/or address affordability concerns, which could result in higher expenditures than previously anticipated. Any new costs will need to be analysed; for example, potential increased costs due to testing needs, and

potential increased economic development costs. At the same time, it is unknown at this point whether stimulus funding will be available for the Region to use for capital projects.

There may also be longer term reforms and/ or service changes, for example, in the areas of Long-Term Care and Public Health. Potential service changes may also be required to support the ongoing need for social distancing, which could result in a fiscal impact to the Region.

### **The Capital Plan may need to be adjusted to respond to impacts of COVID-19**

Development charges, which are predicated on growth, are another area of potential revenue risk, as DC collections may be lower than forecasted during the preparation of the 2020 budget. Following the state of emergency declaration, and to further contain the spread of COVID-19, on March 24, 2020, the Province ordered the mandatory closure of workplaces not deemed as essential. On April 4, this list of essential workplaces was further modified to limit construction activities. As a result, only prescribed non-residential construction and residential projects with the required permits to construct may continue (footing permits for low-rise and above-grade permits for high-rise). All other new residential projects are not permitted to begin construction. On April 14, the Province extended the state of emergency until May 12. The restrictions on construction activities will likely remain during this period of time.

Staff anticipate these measures, as well as the reduction in overall economic activity, to result in a significant decrease in development activity. If the pandemic leads to a prolonged recession, development charge collections could trend below forecast beyond 2020. To help ensure development proposals continue to progress during the ordered emergency measures, the Region and local municipalities are providing development services remotely where possible. The Region will need to examine the impacts and reassess the capital plan if necessary.

The size of the capital plan depends upon availability of asset management reserves, debt capacity and DC collections. If DC collections are lower than forecast, planned growth-related capital expenditures may need to be revisited to keep debt levels in check. Continued focus on managing debt levels is essential to maintain the Region's status as a net investor, where reserves exceed debt. The Region will continue to monitor the impacts and reassess the capital plan if necessary.

### **In recognition of the current economic situation, various relief measures for residents and business are being considered**

In response to COVID-19, local municipalities in the Region have announced or are considering various financial relief programs to support their businesses and residents.

On April 30, 2020 Council enacted a bylaw to waive interest until December 31, 2021 on any portion of property tax instalments, for the 2020 taxation year, not remitted to the Region as a direct result of a local municipality's COVID-19 tax relief program, except for the interest related to the final 2020 installment which shall be waived until March 31, 2021.

In addition, on April 2, 2020, Council approved retaining the 2020 water and wastewater rates at their 2019 levels. While staff were directed to report back on the financial implications of this decision later in 2020, preliminary analysis suggests that deferral of the rate increase would result in lost revenue of about \$25 million in 2020. It could also jeopardize the planned achievement of full cost recovery for water and wastewater services, originally anticipated in 2021, assuming increases of 9 per cent in 2020 and 2.9 per cent in 2021. After that, increases were expected to be required to keep up with increasing costs.

## **A number of underlying objectives will guide 2021 budget development**

As outlined above, the 2021 budget will need to address a high degree of uncertainty and find an appropriate balance between various competing objectives including:

- Support vulnerable populations
- Support economic recovery
- Focus on highest priority programs and services
- Mitigate affordability concerns
- Focus on long-term fiscal sustainability
- Fund key infrastructure projects
- Short-term liquidity and cash flow

The budget will need to ensure that funds are focused on the highest priority programs and services. In light of the pressures created by COVID-19, sufficient funding will be required for services to support vulnerable populations during the COVID-19 recovery phase. Budget support for initiatives focused on economic recovery from COVID-19 will also be required. That may be in the form of providing direct supports to businesses as well as funding key infrastructure projects.

Affordability concerns, including an acceptable level of tax increase, will be another key consideration. While Regional Council endorsed a tax levy increase outlook of 2.96 per cent for 2021 as part of the 2020-22 budget process, a lower tax levy increase may be preferred in light of the economic impacts of COVID-19 on residents and businesses. A lower tax levy increase may limit the Region's ability to fund the key programs and services and maintain the existing levels of service. If additional sources of funding are not feasible or available, including funding from other levels of government, the budget would need to address difficult policy choices.

The 2021 budget will continue to focus on long-term fiscal sustainability objectives while also adapting to the current reality. The Region's fiscal strategy consists of three related elements: capital management, reserve management, and debt management. On the capital management side, a continued strategy to provide funding for key infrastructure projects, including roads capital acceleration and contributions for future infrastructure needs is required. On the reserve management side, the Region has set up reserves for asset

management needs, for funding non-development charge portion of growth capital projects, as well as sustainability reserves. Given the current circumstances, further analysis may be required to balance the levels of contributions to reserves, which will help achieve longer term sustainability while being able to respond to immediate pressures and tax levy affordability. If the Region is required to draw on stabilization reserves to mitigate potential over-budget expenditures in 2020, a strategy would need to be developed to rebuild those reserves in the future.

The budget process will also endeavour to ensure that the timing of budget approval by Council is best aligned with expected information on key budget inputs, while still early enough to effectively guide corporate actions and help achieve budget priorities for 2021.

### **March 2021 approval of the 2021 budget is proposed**

It is proposed that the 2021 budget be tabled with Council in February 2021. Departmental budget reviews are proposed to take place at the Committee of the Whole meetings in March 2021, with final budget approval considered by Council in March 2021. It is also proposed that the Conservation Authorities make their budget presentations to Committee of the Whole in February 2021.

In a typical non-election year, the budget is tabled with Council in November and approved in December. For the 2021 budget, it is recommended that the budget be tabled and approved in Q1 2021. The later tabling and approval date is recommended to help address the high level of uncertainty and limited information on the implications of COVID-19. This includes uncertainties around provincial funding, combined with potential short-term constraints on staff capacity to develop program budgets during the COVID-19 emergency response. The proposed approach provides more time to obtain better information on critical budget inputs including the provincial budget, which is expected to be released by November 15, 2020. It also provides more time to incorporate any COVID-19 related cost implications and make any adjustments to the revenue assumptions, including senior government funding and assessment growth revenue.

Table 4 summarizes the key dates in the proposed 2021 budget process.

**Table 4**  
**Proposed 2021 Budget Timeline**

<b>Key Activities/ Milestones</b>	<b>Date</b>
Budget direction report to Committee of the Whole	May 14, 2020
Initial departmental budget submission to Finance based on outlook, and identification of COVID-19 related pressures/risks	August 2020
Senior management reviews, including analysis of COVID-19 implications for 2021 budget	August - October 2020



Key Activities/ Milestones	Date
Final departmental budget submission to Finance, reflecting implications of COVID-19	October 2020
Anticipated Tabling of Provincial Budget	By November 15, 2020
Treasurer and CAO reviews, final corporate adjustments to the budget, and development of recommendation to Council	November 2020 - January 2021
Committee of the Whole reviews – Conservation Authorities	February 2021
Table Budget with Council	February 2021
Committee of the Whole reviews – Departments	March 2021
Tentative Budget approval	March 2021

This timeline could affect the C.D. Howe Institute’s rating of York Region’s budget. In their annual assessment of governmental budgets, one of the considerations is whether the budget is approved before the fiscal year begins. For the 2018 budget, which was approved in December, the Region received full marks for approving the budget before fiscal year end and an overall rating of A from the C.D. Howe Institute. In comparison, the 2019 budget received an overall rating of B, which was mainly due to the later approval of the budget in the election year. However, given the unique situation facing governments in 2020, it is not yet clear how this evaluation criterion will be applied.

### **The multi-year budget process supports the 2019 to 2023 Strategic Plan**

The 2019 to 2023 Strategic Plan guides the multi-year business planning and budgeting process. Many priorities outlined in the Strategic Plan will be reflected in the 2021-2022 and future Regional budgets. Anchoring the Strategic Plan in core services ensures the Region continues to meet its legislative obligations while remaining flexible and responsive to the changing needs of our residents. The impacts of COVID-19 on York Region’s ability to achieve the 2019 to 2023 Strategic Plan will be reflected in next year’s Progress Report demonstrating 2020 results on performance measures.

## **5. Financial**

While there are no direct financial implications associated with this report, the 2021 Budget will establish expenditures and funding for the provision of Regional services in 2021 and the outlook for 2022 will form the basis of the 2022 budget process. Table 5 summarizes the 2020-2022 approved operating budget and outlook, as well as the 2020 capital budget and ten year capital plan.

**Table 5**  
**2020-2022 Approved Budget**

	<b>2020 Approved Budget</b>	<b>2021 Outlook</b>	<b>2022 Outlook</b>
<b>Tax Increase</b>	2.96%	2.96%	2.96%
<b>Gross Expenditures</b>	\$2.5B	\$2.5B	\$2.6B
<b>Net Expenditures</b>	\$1.2B	\$1.2B	\$1.3B
<b>Ten-Year Capital Plan</b>	\$7.1B		
<b>Capital Budget</b>	\$826M		

## 6. Local Impact

There is no direct local municipal impact associated with this report. Certainty and discipline in the budget helps local municipalities with their budget planning.

## 7. Conclusion

Significant financial challenges related to the COVID-19 pandemic will need to be addressed in the Region's 2021 budget. New cost pressures are associated with the emergency response and anticipated in the recovery phase. Risks and uncertainty regarding economic activity, property tax assessment growth and development charge collections are also a challenge. As of April 16, 2020, the cost of the emergency response was estimated at \$13.8 million. The full year impact of COVID-19 for 2020 is estimated at over \$100 million.

Given the high level of uncertainty and the evolving financial landscape resulting from COVID-19, it is proposed that the 2021-2022 Budget be tabled with Council in February 2021, with consideration of approval in March 2021. This timeline also reflects the timing of the provincial budget, which is expected to be released by November 15, 2020.

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For more information on this report, please contact Kelly Strueby at 1-877-464-9675 ext. 71611. Accessible formats or communication supports are available upon request.

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