

MEMORANDUM

To: Regional Chair Emmerson and Members of Regional Council

From: Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer

Date: March 9, 2021

Re: Proposed update to 2021-2022 Regional budget

This Memorandum provides information on an update to the Region's proposed budget as tabled on February 25, 2021. The update reflects recent information received from the Province regarding additional funding to support municipalities and their transit systems to address COVID-19 financial impacts in 2021.

The update includes a reduction to the 2021 proposed tax levy increase, as shown in the following table. This reduction will be reflected in the Region's proposed 2021 budget scheduled for Council consideration on March 25, 2021.

Table 1
Revised Proposed Tax Levy Increase

Tax Levy Increase	2021 Proposed	2022 Outlook
Proposed Budget - February 25, 2021	2.96%	2.96%
Proposed Update - March 11, 2021	1.54%	2.96%

One-time funding announced by the Province in March 2021 will help offset COVID-19 financial impacts

On March 4, 2021, the Province announced an additional \$500 million funding initiative to help municipalities cover COVID-19 operating costs. The announcement indicated York Region's allocation would be \$21.1 million. The commitment letter sent to the Region also indicated that if the amount exceeds the 2021 COVID-19 operating costs and pressures, the excess amount may be placed in a reserve fund to support any future COVID-19 operating costs and pressures. This funding is in addition to the December 2020 Provincial commitment under the Safe Restart – Municipal Operating stream to provide \$9.9 million to the Region to assist with 2021 impacts of COVID-19. The \$9.9 million is included in the Region's proposed 2021 budget.

On March 2, 2021, the Province provided additional guidelines and requirements surrounding the Safe Restart – Transit Funding initiative. The guidelines provide information further to the

December 2020 letter from the Province indicating the Region could be eligible to receive up to \$34.3 million in Safe Restart – Transit funding.

As the December 2020 letter included limited details regarding eligibility criteria, a funding assumption of \$7.2 million was included in the Region's proposed budget. The \$7.2 million represents expected eligible costs up to March 31, 2021. The information received on March 2 indicated the Region may be able to use an additional \$12.9 million of the \$34.3 million beyond the March 31, 2021 timeframe and be eligible to receive an additional \$3.8 million in 2021 to address COVID-19 related financial impacts. This information was confirmed in a letter from the Province on March 3, 2021, which indicated the Region may receive a total of \$16.7 million in additional Safe Restart – Transit funding in 2021 that is not currently included in the budget figures.

The tax levy increase could be reduced to 1.54% to cover only capital reserve contribution needs

The tax levy increase in the proposed 2021 Budget includes 1.42% for program-related increases largely due to COVID-19 impacts and 1.54% for increases to capital reserve contributions, for a total increase of 2.96%. The additional funding announced by the Province would address the budget increases required to meet COVID-19 related needs and would eliminate the need for the 1.42% tax levy increase in 2021.

As the new Provincial funding is expected to be greater than the amount required to eliminate the 1.42% tax levy increase, the resulting flexibility would be used to reduce the projected draw from the Pandemic Management Reserve and to increase the Region's contingency budget to help manage any additional unanticipated pressures or uncertainties related to eligibility for other COVID-19 funding streams, such as the Investing in Public Health program.

Further reductions to the tax levy increase are not recommended

These proposed changes would be made within the Financial Initiatives budget and would not affect individual department budgets. The remaining proposed tax-levy increase of 1.54% is for increased contributions to capital reserves, to help pay for both growth-related infrastructure and asset replacement. Contributions to tax levy funded growth capital reserves and asset replacement reserves are planned to enable the delivery of the proposed 2021 Capital Plan without the need to issue tax levy-supported debt. Avoiding new tax levy-supported debt is key to limiting total debt and protecting the Region's credit rating, which are primary goals of the Region's Fiscal Strategy since its inception in 2014.

Table 2
Summary of Changes to Proposed 2021 Tax Levy Increase

		2021	
Proposed Update to 2021 Budget		Year-over-Year Net Budget Change (\$M)	Tax Levy Increase (%)
Proposed Budget - February 25, 2021	Contributions to Capital Reserves	18.3	1.54
	Operating Programs	<u>16.9</u>	<u>1.42</u>
	<i>Proposed Increase</i>	35.2	2.96
Proposed Update - March 11, 2021	March 4 Municipal Funding Announcement	-21.1	-1.78
	March 2 Transit Funding Update	-16.7	-1.41
	Reduced Pandemic Mgt Reserve Draw	13.0	1.09
	Increased Contingency	<u>7.9</u>	<u>0.67</u>
	Sub-total	<u>-16.9</u>	<u>-1.42</u>
<i>Proposed Increase – Updated</i>		18.3	1.54

* Figures may not add due to rounding

An increased draw from the Pandemic Management Reserve in 2022 would ensure the outlook for the 2022 tax levy increase does not exceed 2.96%

Updating the proposed 2021 budget figures with the additional Provincial funding reduces net expenditures in 2021 and creates a lower base for the percentage change tax levy increase calculation in 2022. As a result, a higher tax levy increase would be required to meet the expenditure needs currently included in the proposed outlook in 2022. The increase would be roughly equivalent to the proposed reduction in 2021, or an additional 1.43%.

To avoid this increase, an additional draw of \$17.4M from the Pandemic Management Reserve in 2022 is recommended. This draw would be in addition to the draw of \$39.1 million in 2022 currently included in the budget. The additional draw is expected to be within the projected balance of the Pandemic Management Reserve, in part because no draw would be required in 2021.

Table 3
Summary of Changes to Proposed 2022 Tax Levy Increase

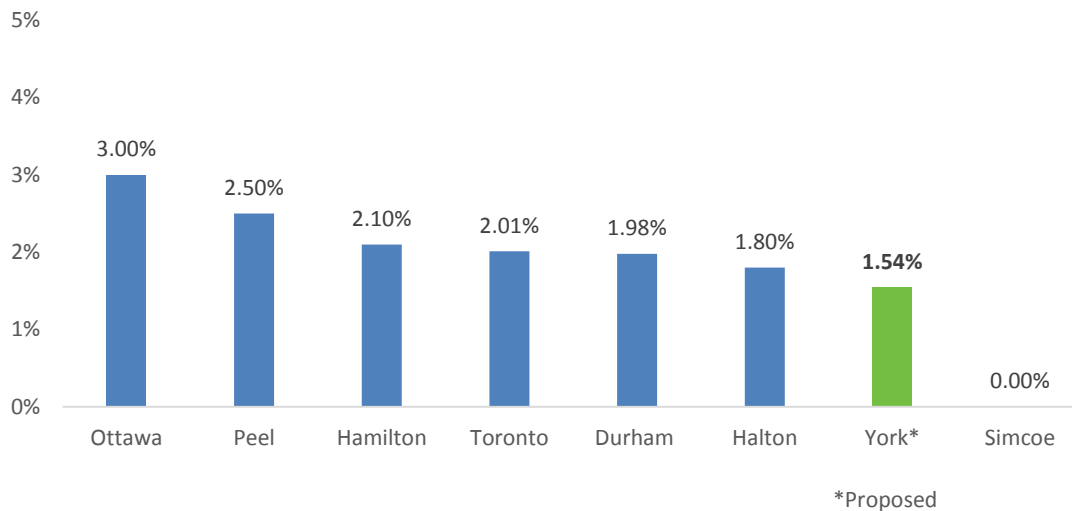
		2022	
		Year-over-Year Net Budget Change (\$M)	Tax Levy Increase (%)
Proposed Update to 2022 Outlook			
Proposed Budget - February 25, 2021	Contributions to Capital Reserves	17.9	1.46
	Operating Programs	<u>18.3</u>	<u>1.50</u>
	<i>Proposed Increase</i>	36.2	2.96
Proposed Update - March 11, 2021	Tax Levy Base - Adjustment for 2021 reduction	17.4	1.43
	Increased Pandemic Mgt Reserve Draw	-17.4	-1.43
	Sub-total	-	-
	<i>Proposed Increase - Updated</i>	36.2	2.96

* Figures may not add due to rounding

The Region's proposed 2021 tax levy increase is below increases approved in many upper tier and larger municipalities

The chart on the following page shows tax levy increases approved in the Region's neighboring municipalities and in other large municipalities in the province. The figures are from municipal 2021 budgets and reflect the full increase in each municipality's net tax levy, so they are comparable to the Region's figures. Some of the figures may appear to be higher than publicly released figures, as some municipalities present the information differently than the Region. For example, publicly announced figures may exclude the capital levy included in the annual increase, or the increase may be calculated using the estimated total tax bill including local, regional and education taxes.

Figure 1
2021 Approved Tax Levy Increases



Updates will be reflected in the 2021-2022 Proposed Budget to be considered by Council on March 25

The additional transit and municipal funding recently announced by the Province would help to address COVID-19 pressures and reduce the proposed 2021 tax levy increase to 1.54%.

The proposed increase in the Region's contingency in 2021 will help address ongoing uncertainty related to pandemic response and recovery costs. It will also help manage risks related to costs that are reimbursed after expenses are incurred, such as Public Health costs. Eliminating the previously budgeted draw of \$13 million from the Pandemic Management Reserve in 2021 would also provide increased flexibility to address uncertainty related to the length of the response and recovery.

The proposed updates included in this Memorandum will be reflected in the consolidated budget report to be considered by Council on March 25, 2021. Any additional information received from senior levels of government on funding initiatives to assist with COVID-19 financial impacts, received prior to finalizing the report, would also be reflected.

Laura Mirabella

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