York Region

Office of the Commissioner
Finance Department

MEMORANDUM

To: Regional Chair Emmerson and Members of Regional Council

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

Date: March 23, 2021

Re: Implications of 0% 2021 tax levy increment

At its meeting of March 11, 2021, Committee of the Whole requested that staff review the Budget given the Safe Restart Program funding of approximately $17 million through the transit stream and $21 million through the municipal stream to achieve a 0% tax levy increase in 2021, while still providing a 1.54% ($18.3 million) incremental contribution to capital reserves.

This Memorandum summarizes the implications of a reduced tax levy increase in 2021 resulting from the additional one-time COVID-19 related funding announced by the Province in early March 2021. The information includes:

- A review of the option set out in a March 9 Memorandum, including reducing the proposed 2021 tax levy increase from 2.96%, as tabled, to 1.54%, while restoring fiscal risk management measures by eliminating a proposed $13 million draw from the Pandemic Management Reserve in 2021 and increasing the operating Contingency by $7.9 million.

- A description of actions required to achieve a 0.0% tax levy increase in 2021, and the implications for 2022 as well as the next multi-year budget cycle. This includes reducing the proposed increase in Contingency from $7.9 million to $2.6 million, maintaining a projected $13 million draw from the Pandemic Management Reserve for 2021, and options for addressing a resulting structural gap in the budgets for 2022 and beyond.

Additional one-time funding was announced by the Province totaling $37.8 million in March 2021

The Region's proposed 2021-2022 budget tabled on February 25, 2021 reflected a 2.96% net tax levy increase. Of this amount, 1.42% or $16.9 million reflected the program-related net tax levy increase driven by impacts of COVID-19. The remaining net tax levy increase of 1.54% or $18.3 million was comprised of increases to capital reserve contributions.

In early March 2021, the Province announced additional funding to help municipalities cover COVID-19 operating costs. These funding commitments were unknown when the Region's proposed 2021-2022 budget was tabled on February 25, 2021. The newly announced funding includes $21.1 million for general municipal operating costs associated with COVID-19, and up to $16.7 million to help offset transit impacts. The announcements indicated the Region would be required to report on the intended use of the funding.

The 1.54% tax levy increase proposed in the March 9 Memorandum includes $20.9 million in additional flexibility for 2021, but increases risk in future years

As indicated in the March 9 Memorandum, and as shown in Table 1 below, recognizing the funding announced after the budget was tabled, could eliminate the program-related increase of 1.42% related to COVID-19 for 2021, while providing a safeguard against the continued uncertainty in 2021 and beyond . A total increase in flexibility of $20.9 million is possible, relative to the budget as tabled on February 25, 2021.This approach would allow an increase the Region's Contingency budget of $7.9 million for 2021. This approach would also allow the elimination of a planned $13 million draw from the Pandemic Management Reserve in 2021 which would increase flexibility for 2022.

Table 1

1.54% Increase in 2021 & 2.96% Increase in 2022

		2021		2022	
		Year-Over-Year Net Budget Change ($M)	Tax Levy Increase (%)	Year-Over-Year Net Budget Change ($M)	Tax Levy Increase (%)
Proposed Budget - February 25, 2021	*Increase*	*35.2*	*2.96*	*36.8*	*2.96*
Proposed Update - March 9, 2021 Memorandum	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	7.9	0.67		
	Tax Levy Base - Adjustment for 2021 reduction			17.4	1.43
	Increased Pandemic Mgt Reserve Draw			-17.4	-1.43
	Sub-total	-16.9	-1.42	-	-
	Increase - Updated	*18.3*	*1.54*	*36.3*	*2.96*

The additional flexibility would help the Region address any unanticipated pressures this year, including potentially higher or unrecoverable costs associated with the rollout of vaccines and potential resurgence of COVID-19 cases. The proposed increase to the Contingency budget would also allow the total Contingency to be closer to target levels, or approximately 1% of the overall net expenditures.

The proposal in the March 9 Memorandum included an additional draw of $17.4 million from the Pandemic Management Reserve in 2022 to offset the pressure resulting from the reduced tax levy increase in 2021 and lower tax base.

A 0.0% tax levy increase in 2021 would reduce flexibility to address unanticipated COVID-19 pressures by $18.3 million and further increase risk in future years

To provide additional relief to property taxpayers, the remaining COVID-related funding could be used to offset COVID-19 related costs included in the base budget. The resulting savings would reduce the tax levy increase to 0.0%. As shown in Table 2 below, the $13 million Pandemic Reserve draw would be maintained as originally planned in the proposed budget. This approach would allow for only $2.6 million to be added to the Contingency budget in 2021.

Table 2

0.0% Increase in 2021

			2021 Year-Over-Year Net Budget Change ($M)	2021 Tax Levy Increase (%)
Proposed Budget - February 25, 2021		*Increase*	*35.2*	*2.96*
Update - March 25, 2021	March 4 Municipal Funding Announcement		-21.1	-1.78
	March 2 Transit Funding Update		-16.7	-1.41
	Increased Contingency		2.6	0.22
	Sub-total		-35.2	-2.96
		Increase - Updated	-	-

This would reduce flexibility by $18.3 million to address unanticipated pressures in 2021 compared to the proposal included in the March 9 Memorandum.

Although the budget reflects the best information available, the Region will continue to monitor risks. For example, the budget includes approximately $11.4 million in 2021 to operate COVID-19 immunization clinics and implement the Region's Mass Vaccination Plan, including immunizing 75% of residents by the end of this year. While these costs are expected to be recovered from the Province, this will not be confirmed until overall Public Health costs are reviewed by the Province at the end of the year. Additionally, In January and February of 2021, the financial impacts of COVID-19 on the Region averaged $5.2 million per week, which was higher than the $3.7 million per week reported at the end of 2020. Should weekly costs continue at this rate, total COVID-related costs for full year 2021 could exceed the amount reflected in the 2021 budget. Further information on the Financial Impacts of COVID-19 is included in a Memorandum to Council dated March 19, 2021.

The use of temporary funding to reduce the tax levy increase in 2021 creates a structural gap in the fiscal plan in 2022 and beyond

The proposed incremental tax levy contribution to capital reserves of $18.3 million in 2021 reflects an ongoing amount that is needed in the base budget in future years. If Council chooses to implement a tax levy increase of less than the 1.54% recommended, part or all this contribution would be offset using one-time funding creating an ongoing pressure, or 'structural gap'. Maintaining the $13 million Pandemic Management Reserve draw in 2021 would have a similar impact.

Measures to address the structural gap in 2022 and beyond could include a tax levy increase of up to 4.53% in 2022, reduced reserve contributions, expenditure cuts, or a combination

Addressing a structural gap of approximately $18.3 million in 2022 would require significant measures. Various management strategies could be considered.

One option to address the structural gap is to increase the net tax levy above the endorsed outlook of 2.96% in 2022. The net tax levy increase that would be required to close the gap is estimated to be 4.53% in 2022, or 1.56% higher than the endorsed outlook.

Other options to address the structural gap could include reducing program expenditures or capital reserve contributions.

Measures to address the structural gap could impede efforts to meet Strategic Plan objectives and result in longer-term financial impacts

Department budgets are developed and reviewed annually to ensure program and service budgets are aligned with the objectives and key activities included in the Strategic Plan. This helps ensure that programs meet strategic objectives, deliver value and that opportunities for potential efficiencies and savings are identified.

As part of the 2020 budget process, a corporate-wide savings exercise was undertaken. The 2022 outlook includes savings of $159.4 million from initiatives identified in the 2020 savings exercise and further savings found as part of the 2021 budget process. These exercises indicated that the potential for further savings would be limited without affecting programs and service levels or risk tolerance.

Options involving reducing expenditures would also have to consider budget risks and potential future pressures that could lead to higher costs. These could include the impacts of potential higher response costs and a prolonged recovery related to COVID-19, or in a post-pandemic environment, a Provincial decision to revisit its commitments regarding cost-shared programs and services.

Reducing contributions to capital reserves would introduce a similar risk to the Strategic Plan. Implementing the Region's Fiscal Strategy is a key strategic plan activity that supports the Good Government objectives, as it focuses on increasing reserves, reducing debt, and maintaining the Region's credit rating. Determining the appropriate contribution levels for reserves is supported by comprehensive asset management planning, including tracking the state of capital assets and forecasting rehabilitation and replacement needs to help manage assets for current and future generations.

Reduced capital reserve contributions would negatively affect reserve balances. This could also impact the Region's ability to implement asset management projects on a timely basis determined through the asset management planning process, which could potentially impact the condition of Regional assets. Tax levy contributions to capital reserves are required to grow by approximately 3% plus assessment growth each year to achieve the funding targets in the Fiscal Strategy. Contributions to tax levy funded growth capital and asset replacement reserves are needed to enable delivery of the proposed 2021 Capital Plan without issuing tax levy-supported debt. To achieve target reserve balances, any potential reductions to planned contributions would have to be made up in future years, which would result in added pressures in those years.

Reduced contributions to tax-levy funded capital reserves could also increase the financial burden of the Yonge Subway Extension. Although the details of the Region's subway contribution are still being developed, a portion will need to be funded from the tax levy.

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

The proposed update to the Region's 2021-2022 Budget outlined in the March 9 Memorandum includes a 1.54% tax levy increase in 2021 and 2.96% in 2022 while maintaining $20.9 million in flexibility by avoiding the projected draw from the Pandemic Management Reserve in 2021 and increasing the Contingency budget to address ongoing uncertainty related to the pandemic response and recovery costs.

Eliminating the tax levy increase in 2021 would be possible by reducing most of the additional flexibility included in the March 9 update and by increasing the planned draw from the Pandemic Management Reserve by over $18 million in 2022. This draw would be in addition to the draw of $56.5 million in 2022 reflected in the March 9 update.

Additional funding confirmed by the province in early March provides relief to offset ongoing COVID-related costs. Council has previously approved directions that include significant capital funding commitments to roads, transit and state-of-good-repair. The recommendation for a reduced 1.54% tax levy increase in 2021, balances risks against the longer term aspirations and directions of Council and remains the recommended approach that might be more practically revisited in the 2022 budget deliberations.

The consolidated budget report to be considered by Council on March 25, 2021 reflects the Memorandum of March 9, 2021. Should Council choose another option, a revision to the recommendations of the consolidated budget report may be required.

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