Report To:	Regional Chair and Members of Regional Council
From:	Mark Scinocca, Commissioner, Finance and Regional Treasurer
Date:	July 10, 2019
Report No. - Re:	FN-28-19 - 2020 Budget Directions

RECOMMENDATION

1. THAT the 2020 Tax Supported Budget, excluding the Halton Regional Police Service (HRPS), be prepared such that the tax increase is at or below the rate of inflation (2.0%).

2. THAT the 2020 Rate Supported Budget be prepared such that the rate increase related to operations is at or below the rate of inflation (2.0%) with a total rate increase including the state-of-good-repair capital program not to exceed 3.9%.

3. THAT the 2020 Budget Schedule as set out in Attachment #1 to Report No. FN-28-19 be approved.

4. THAT a letter from the Commissioner of Finance and Regional Treasurer identifying the 2020 Budget Directions target of the following budget increases and a copy of Report No. FN-28-19 be forwarded to the respective boards as follows:
    a. Halton Regional Police Service 3.7% increase
    b. Conservation Halton 3.7% increase
    c. Credit Valley Conservation 3.7% increase
    d. Grand River Conservation Authority 3.7% increase
    e. Royal Botanical Gardens 2.0% increase

5. THAT the Regional Chair write a letter to the Province and request direction on funding for Public Health and Paramedic Services.

REPORT

Executive Summary

- The 2020 Budget guidelines have been prepared to ensure existing levels of service are maintained with identified pressures as highlighted in Report No. FN-28-19 that will be considered as part of the budget process.

- The 2020 target tax increase and water and wastewater rate increase related to operations are targeted at or below the rate of inflation.
- The target budget increase for Regional Services before assessment is 3.7%.
- The budget direction for the Halton Regional Police Service (HRPS), Conservation Halton, Credit Valley Conservation and Grand River Conservation Authority is 3.7%. The budget direction for the Royal Botanical Gardens is an inflationary increase of 2.0%.
- After assessment growth of 1.7%, a target of 2.0% tax rate increase for Regional and Police Services is projected.
- The 2020 Budget and Business Plan is scheduled to be reviewed by Regional Council on December 4, 2019 and is scheduled for approval on December 11, 2019 as set out in Attachment #1.

Background

The purpose of this report is to seek approval for the 2020 budget guidelines and schedule for the Tax and Rate Supported Budgets and to highlight some of the challenges that will be addressed in preparing the 2020 Budget and Business Plan. These guidelines have been prepared based primarily on existing levels of service with identified pressures, including recent provincial funding announcement changes, and are intended to provide direction to staff in preparing the 2020 budgets to deliver Regional services.

Discussion

BUDGET SCHEDULE

The proposed 2020 budget schedule as set out in Attachment #1 to this report has been developed so that the Tax and Rate Supported Budgets will be prepared and presented to Council together. The Budget Book will be printed in mid-November, and a Budget Information Overview of the 2020 Budget will be provided at the Council meeting on November 20, 2019. Council is scheduled to review the budget December 4, 2019 and approval of both the Tax and Rate Supported Budgets is scheduled for December 11, 2019.

STRATEGIC ACTIONS SHAPING HALTON’S 2020 BUDGET

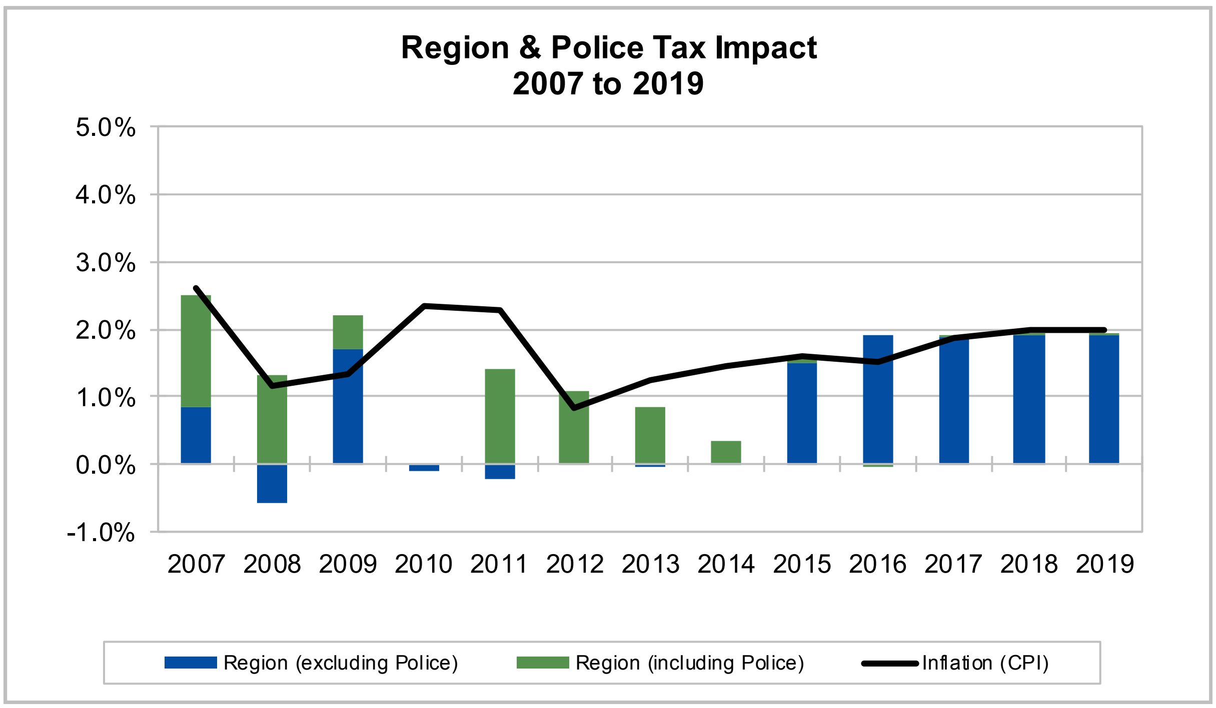
AAA Credit Rating

Maintaining a AAA credit rating over the past 31 years is a testament to the financial position, policies and practices of the Region and Local Municipalities. The AAA credit rating reflects Halton’s strong and stable operating budgetary results, very low debt burden, high levels of liquidity, a commitment to multi-year planning, stable revenue and expenditure flows, a very strong and well-diversified economy, prudent and conservative fiscal management practices and a stable and well-qualified management team. Maintaining a AAA credit rating provides the best possible capital financing rates and minimizes long-term infrastructure capital financing costs. In Moody’s June 18th Report, it was identified that changes to the provincial funding structure will have a negative credit impact for municipalities in Ontario. In Moody's view, municipalities will need to address the funding shortfalls resulting from the recent provincial announcements through a combination of administrative efficiencies, raising taxes, cutting some non-essential services and drawing on reserves. Moody's indicated municipalities with high liquidity, such as Halton, will be best positioned to absorb these shocks.

Tax Rate Increases At or Below the Rate of Inflation

The key priority in developing the tax budget guidelines is to prepare the Tax Supported Budget with an increase at or below the rate of inflation. The Region has been successful in delivering a property tax increase at or below the rate of inflation while maintaining or enhancing services. The chart below provides the history of property tax increases for Regional services in Halton since 2007. The average annual tax increase over this period has been below the average rate of inflation for the past 13 years.

While focusing on maintaining existing levels of service during the past 13 years, Council approved investments in high priority core service areas through the annual budget process.



Continuous Improvement & Efficiencies

Halton has maintained, and enhanced, services with tax increases at or below the rate of inflation over the past 13 years by identifying improvements and efficiencies through continuous improvement. Recently, the provincial government asked municipalities to find savings of four cents for every dollar spent. Halton has for many years identified savings and reallocated resources to priority areas to address program pressures and service levels without having an impact on the budget. Many of these savings and efficiencies have been identified in the budget book, with over $26 million in savings identified between

2014-2019 for the Tax and Rate Supported budgets. Continuing this practice through the 2020 budget development process, staff will continue to work to identify savings and opportunities for reallocation of resources to address pressures.

Provincial Funding

Funding for health programs continues to be significantly below the expected level of cost-shared and 100% provincially funded programs. The 2019 health budget including Paramedic Services included a provincial funding shortfall of $9.2 million. However, as noted below, the recent provincial funding announcement to freeze funding to Public Health units and Paramedic Services will put additional pressure on service levels.

As reported to Council through Report No. CA-08-19 (re: 2019 Provincial Budget Update), the 2019 Provincial budget was delivered on April 11, 2019 and included funding and program changes for municipalities in the areas of public health, paramedic services, social and employment services. Following the delivery of the provincial budget there have been a number of subsequent announcements which provided some additional information regarding impacts to Halton. Updates have been provided to Council through the Memorandums "Update on Report No. CA-08-19 – 2019 Provincial Budget Update" and "Update on Report No. CA-08-19 – 2019 Provincial Budget Update Part II".

The tables below outline the projected provincial funding changes for 2019 and the 2020 budget. The 2020 budget will be developed with the most up-to-date information available, however many details continue to remain unknown at this time. Further details on each program area are outlined in the 2020 Tax Budget Pressures section of this report.

Provincial Budget Subsidy Impacts						
($000s)	2019 Approved Budget	2019 Funding	Variance 2019 Budget - 2019 Funding	2019 Amended Budget	2020 Projected Budget	Change 2020 Projected / 2019 Amended Budget
Public Health	**20,964**	**20,971**	**7**	**20,971**	**20,971**	**-**
Paramedic Services	**18,903**	**17,138**	**(1,765)**	**18,903**	**17,138**	**(1,765)**
Children's Services	**55,177**	**57,271**	**2,094**	**57,271**	**54,581**	**(2,690)**
Housing - Community Homelessness Prevention Initiative	**6,366**	**5,800**	**(566)**	**6,366**	**6,366**	**-**
Employment & Social Services						
MTCU - Employment Programs	808	725	(83)	808	725	(83)
MCSS - Ontario Works Cost of Admin & Employment Assistance	4,853	4,748	(105)	4,853	4,748	(105)
Sub-total Employment & Social Services	**5,662**	**5,473**	**(188)**	**5,662**	**5,473**	**(188)**
Total			**$ (419)**			**$ (4,643)**

New Funding Allocations						
	2019 Approved Budget	2019 Funding	Variance 2019 Budget - 2019 Funding	2019 Amended Budget	2020 Projected Budget	Change 2020 Projected / 2019 Amended Budget
Investment in Affordable Housing - Expansion	$ 2,128	$ 2,128	$ -	$ 2,128	$ -	$ (2,128)
Ontario Priorities Housing Initiative (OPHI)	-	2,564	2,564	-	2,183	2,183
Canada-Ontario Community Housing Initiative (COCHI)	-	191	191	-	672	672
Public Health - Seniors Low-Income Dental Services	-	1,200	1,200	-	1,200	1,200
	$ 2,128	**$ 6,083**	**$ 3,955**	**$ 2,128**	**4,055**	**$ 1,926**

Financing Growth

The Provincial Growth Plan has imposed financial challenges on the Region. For more than 20 years, the Region has had a long-standing practice that an acceptable development financing plan must be approved by Regional Council prior to proceeding with growth-related programs. Regional Council is committed to supporting planned growth by working in partnership with the development community in order to maintain the Region's objective of protecting Halton Region's tax and rate payers from impacts related to financing growth-related infrastructure, while also maintaining Halton's strong financial position. This principle is upheld through the Region's Development Financing Plan, which states that all growth-related costs that can be recovered from development charges (DCs) will be recovered in accordance with the *Development Charges Act* (DCA). Currently, the Region is implementing the 2012 Allocation Program and financing plan to accommodate 14,450 Single Detached Equivalents (SDE) approved by Council at an estimated cost of $1.4 billion.

Despite Halton's rigorous process to develop its Development Charges Background Study through its Master Plans, Growth Plans, developer consultations and consultant review, a significant amount of growth-related costs cannot be recovered under the current DCA as amended. Council has made several submissions to the province for changes to the DC legislation. These submissions to the province reflected Regional Council's request to make amendments to the DCA consistent with the principle that "growth pays for growth". As part of the 2017 DC update process, staff identified and updated the capital costs that are not being recovered from growth based on this principle. Under the current DCA, Halton Region's DC revenues are estimated to be, at minimum, $14.1 million per year lower than a calculation based on a "growth pays for growth" principle.

Further, as set out in Report No. FN-31-19 (re: Bill 108 – Growth Related Financing), on May 2, 2019, the Minister of Municipal Affairs and Housing announced the Province's Housing Supply Action Plan and introduced Bill 108 (*More Homes, More Choice Act*) in Legislature. Bill 108 passed Third Reading and received Royal Assent on June 6$^{th.}$ The changes will cause financial uncertainty due to timing of DC collection, the gap between timing of DC rate determination and building permit, and the removal of "soft services" from the DCA to a capped Community Benefits Charge under the *Planning Act*. The financial impact is still uncertain as there are substantial associated regulations that are yet to be prescribed. A submission was provided to the Province on June 1, 2019 to respond to the concerns of changes proposed through Bill 108. On June 21, 2019 the Province provided an opportunity to comment on select regulations. It is expected that working groups will be formed during the summer to develop a framework for the calculation of the Community Benefit Charge and its regulations. Staff will advocate to be on these working groups.

Asset Management Plans
Maintaining Regional assets and infrastructure in a state-of-good-repair is a key priority. The Corporate Asset Management Plan demonstrates sound stewardship of the Region's existing assets to support services at desired levels and to ensure financial sustainability. It also supports decision-making for future investments regarding the construction, operation, maintenance, renewal, replacement, expansion and disposal of infrastructure assets while minimizing risk and cost to the Region and residents. Halton's Asset Management Plan has resulted in most infrastructure assets rated to be in good condition and meeting desired service levels.

On May 22, 2019, through Report No. FN-19-19 (re: Asset Management Policy (O. Reg. 588/17)), Regional Council approved Halton's Corporate Asset Management Policy which was the first milestone outlined in the *Infrastructure for Jobs and Prosperity Act, 2015* regulation regarding Asset Management Planning for Municipal Infrastructure (O. Reg. 588/17). Halton Region's asset management practices have evolved throughout the years and staff will work to align the current Asset Management Plan with the requirements set out in the regulation for July 1, 2021.

As highlighted later in this report, a key objective of the annual budget continues to be to invest appropriately in the state-of-good-repair program to maintain the condition of the assets as infrastructure ages and expands due to growth. Staff continue to implement the Public Works Asset Management Road Map Implementation Plan – Optimized Decision Making. The state-of-good-repair capital program financing has been adjusted based on the Asset Management Plan.

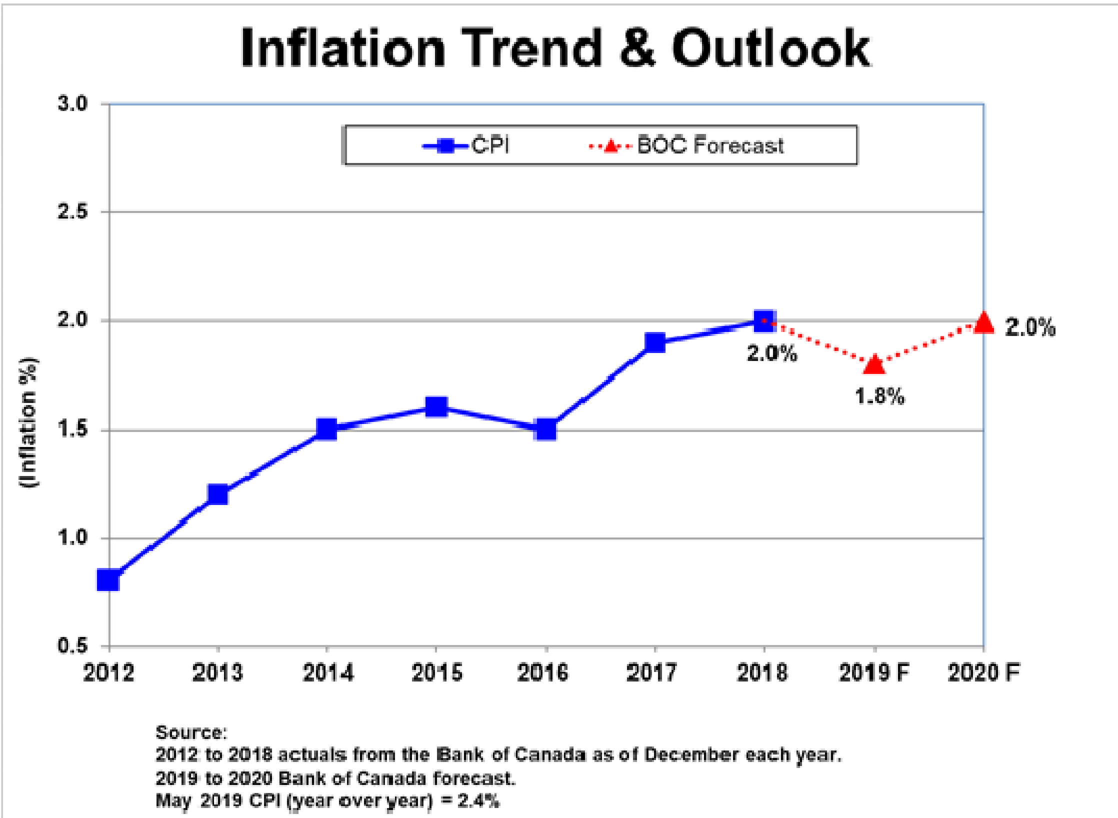
Public Accountability, Transparency and Engagement
As a key priority, Halton Region continues to advocate for support from all levels of government on critical issues affecting the Region. In order to maintain a high quality of life, build the necessary infrastructure, and ensure the financial integrity of the Region, significant funding investments and legislative changes from the Provincial and Federal governments are required. As part of these advocacy efforts, the Region continues to work with the Association of Municipalities of Ontario (AMO) and the Federation of Canadian Municipalities (FCM) on issues of municipal concern.

2020 BUDGET ASSUMPTIONS & PRINCIPLES

Real GDP
According to the Bank of Canada, the first quarter of 2019 displayed effects of slow economic growth due to low oil prices, housing policy changes and increases in borrowing rates over the last couple of years. These effects are expected to diminish over 2019 and in conjunction with immigration and global expansion, growth is expected to improve in the near future. As a result, real GDP growth is projected to be about 1.4% in 2019, increasing to 2.2% for 2020 and easing slightly to 1.9% in 2021.

Inflation
CPI inflation is forecasted to be 1.8% on average for 2019 due to previous drops in gasoline prices and increases in borrowing rates. Although inflation is currently at 2.4%, the Bank expects that inflation will be closer to 2.0% in 2020.

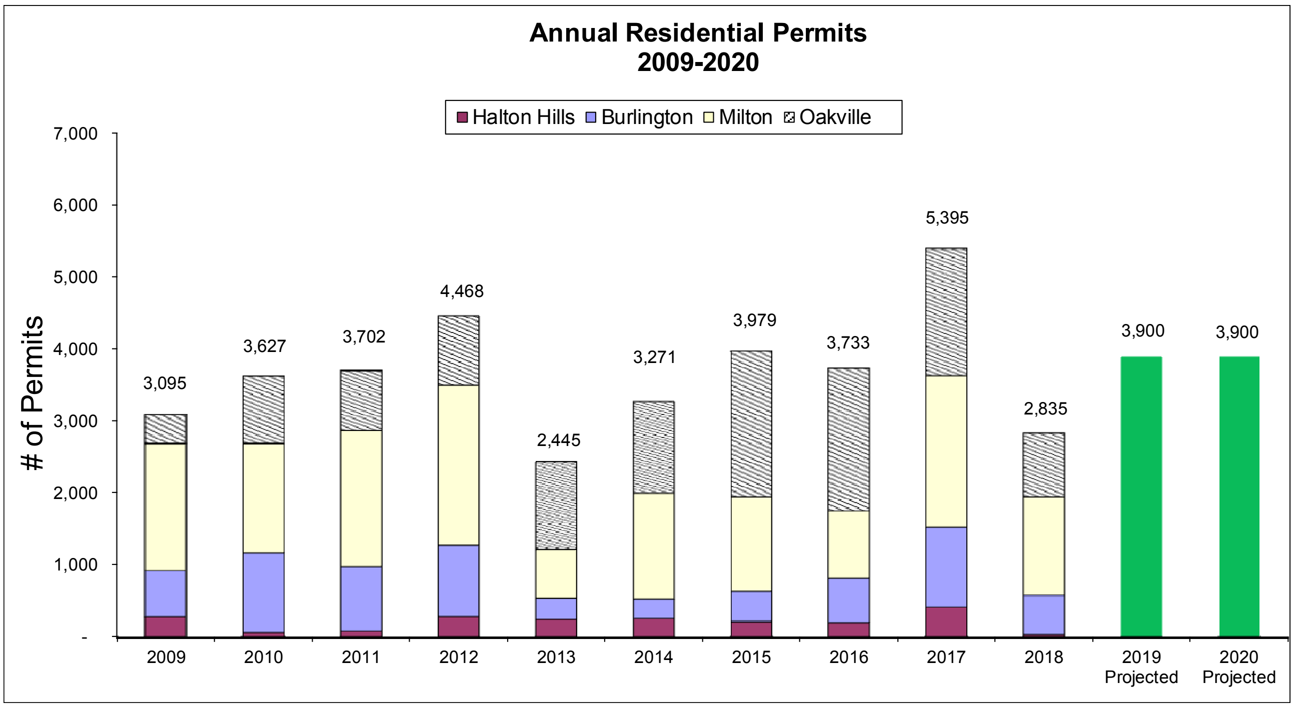
Based on the above information, inflation of 2.0% will be used for preparing the 2020 Budget as set out in more detail below. The following chart shows the trends and outlook for CPI inflation.



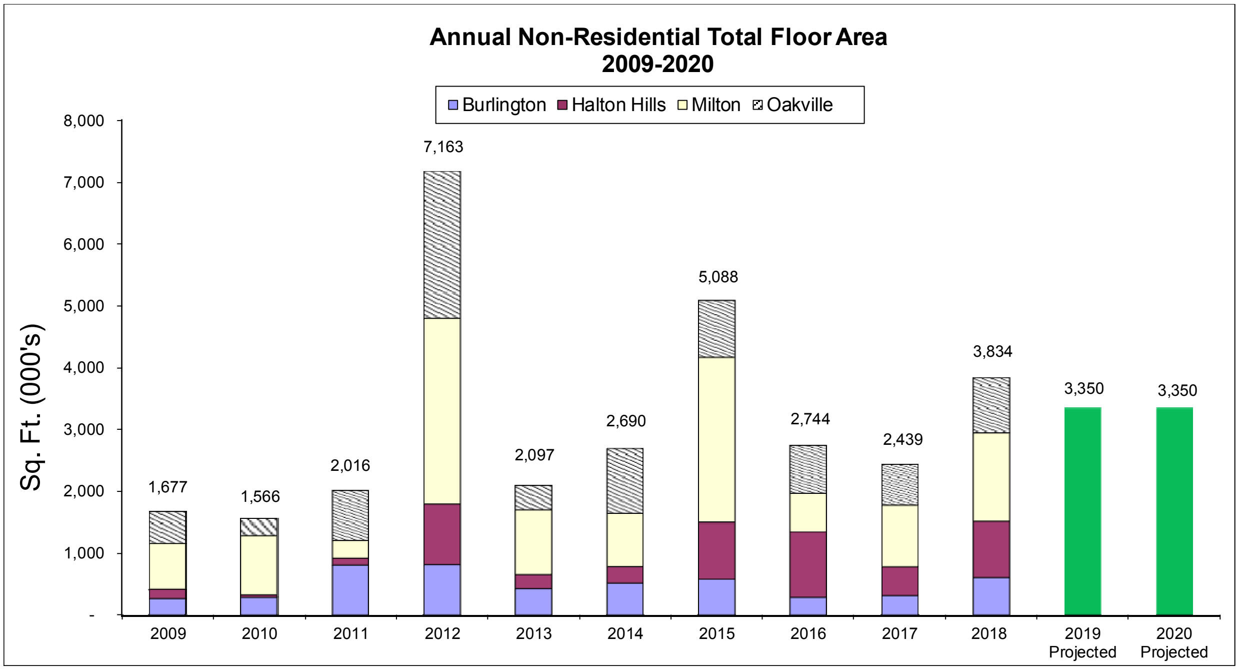
Economic Development
According to the Canada Mortgage and Housing Corporation (CMHC), the level of indebtedness of Canadian households rose faster than income in 2018. As a result, the debt-to-income ratio continued to increase over the course of the year. While indebtedness of Canadian households remains elevated, growth in the volume of mortgage activity slowed in the last quarter of 2018, partly reflecting lower housing market activity.

CMHC stated that with balanced conditions prevailing in the Greater Toronto Area, it is expected that there will be moderate sales growth and home prices growing in line with inflation over the forecasted horizon. The rising costs of home ownership that is forecasted will increase the demand for rental units.

As shown in the chart below, the economic downturn in 2009 attributed to lower than usual residential building permits that year. Residential activity improved with moderate growth to 2012 reaching a high of 4,468 permits before another decline in 2013 due to the delay in the 2012 Allocation Program. The implementation of the 2012 Allocation Program allowed residential permit activity to rebound from 2014 to 2017, with the strong results in 2017 attributed to a considerable increase in condominium development. 2018 saw a substantial decline due to delays in some planning approvals (secondary plans, etc.) that have resulted in delays in the next Allocation Program. Delays are also as a result of the recent uncertainty created by the Provincial Policy changes set out in Bill 108. The timing of the allocation program is impacting the progress of the Region's growth-related capital program that was approved in 2018 and 2019. It is anticipated that the 2019 and 2020 permit activity will be similar to the average experienced over the past 10 years. However, growth continuing at an average of 3,900 units will be dependent on the continued delivery of the 2012 Allocation Program and the implementation of the next allocation program.



As shown in the following chart, since the economic downturn in 2009, the annual average growth between 2009 and 2018 was 3.1 million sq. ft., with exceptional growth in 2012. Based on development applications received and progress in the servicing of the employment lands, it is expected that growth in 2019 and 2020 will be slightly above the 10-year average non-residential development at 3.4 million sq. ft.



2020 Budget Principles

The 2020 Budget will continue to be prepared based on the following budget principles:

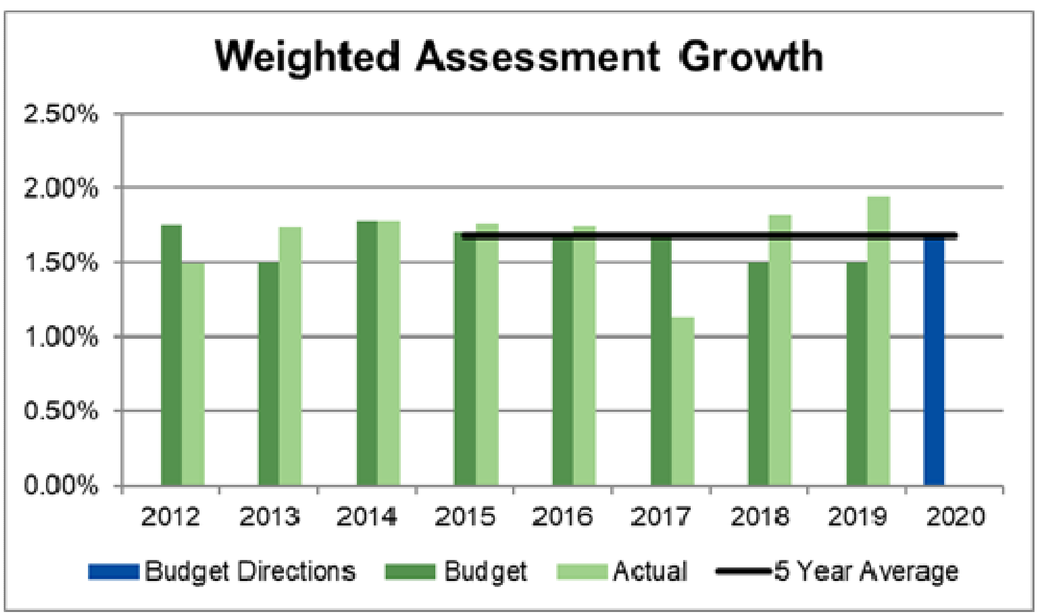
- The annual budget is prepared in accordance with the financial plans, annual targets and policies approved by Regional Council;
- Investment in additional financial and staff resources resulting from growth, program enhancements or additional Federal/Provincial funding will require a business case to be considered by Council as part of the annual budget process;
- The annual budget includes investment in the state-of-good-repair of the Region's assets to maintain a good overall condition of the assets as the Region's infrastructure continues to age and expand;
- Regional programs are funded from sustainable revenues to ensure ongoing expenditures are not funded from temporary or one-time revenues;
- 10-year operating and capital budget forecasts are prepared;
- All growth-related capital costs that can be recovered under the *Development Charges Act* will be recovered from growth in the annual budget. In order to proceed with growth in the Region, an acceptable financing plan must be approved by Council prior to development proceeding;
- Halton's own debt limits are not exceeded throughout the 10-year forecasts;
- Reserves are maintained at levels to ensure financial sustainability to support the state-of-good-repair of Regional assets, tax and rate stabilization reserve targets and to fund specific program requirements; and
- Halton's strong financial position and financial planning principles will be continued to ensure the Region's AAA credit rating is maintained.

2020 TAX SUPPORTED BUDGET DIRECTIONS

As shown in the table below, the 10-year operating budget forecast in the Regional 2019 Budget and Business Plan projected the tax increase for Regional programs and Police Services in 2020 to be 2.3% and 2.4%, respectively, after 1.5% assessment growth; for a combined impact of 2.3%. The 2019 10-year operating forecast was developed based on maintaining existing levels of service, existing program financing plans, assumptions with respect to provincial funding as well as expected inflationary and growth factors.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
($000s)	Requested Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Region:										
Net Expenditures	$ 265,885	$ 275,987	$ 286,570	$ 297,568	$ 308,752	$ 320,180	$ 332,140	$ 344,534	$ 357,384	$ 370,827
Tax Impact (after assessment)	**1.9%**	**2.3%**	**2.3%**	**2.3%**	**2.2%**	**2.2%**	**2.2%**	**2.2%**	**2.2%**	**2.2%**
Halton Regional Police Service:										
Net Expenditures	$ 155,383	$ 161,510	$ 167,868	$ 174,414	$ 181,255					
Tax Impact (after assessment)	**2.0%**	**2.4%**	**2.4%**	**2.4%**	**2.4%**					
Region Including Police:										
Net Expenditures	$ 421,268	$ 437,497	$ 454,439	$ 471,982	$ 490,006					
Tax Impact (after assessment)	**1.9%**	**2.3%**	**2.3%**	**2.3%**	**2.3%**					
Assessment Growth Assumption	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**

For the 2020 Budget Directions, the forecast budget model assumptions have been revised to reflect updated information, including adjusted program financing plans and assessment growth. As shown in the chart below, over the past 5 years, the actual assessment growth has fluctuated, with growth ranging from 1.13-1.95%. Based on the 5-year average, 1.7% assessment growth will be used to prepare the 2020 budget.



2020 Tax Budget Target

The following table summarizes the 2020 Tax Operating Budget Target based on the assumptions used in Budget Directions.

Tax Operating Budget by Expenditure Category

($000s)	2019			2020	Change	
	Approved Budget	In-Year Changes	Amended Budget	Target Budget	2020 Target Budget/ 2019 Amended Budget	
Expenditures:						
Operating Expenditures:						
Personnel Services	$ 185,617	$ 64	$ 185,682	$ 193,107	$ 7,426	4.0%
Materials & Supplies	18,003	-	18,003	18,153	150	0.8%
Purchased Services	104,941	1,690	106,631	108,190	1,559	1.5%
Financial & Rent Expenses	9,552	-	9,552	9,557	5	0.1%
Grants & Assistance	114,021	554	114,575	114,558	(17)	(0.0)%
Other Expenditures	24,363	1,819	26,182	22,004	(4,178)	(16.0)%
Sub-total	**$ 456,498**	**$ 4,127**	**$ 460,625**	**$ 465,569**	**$ 4,944**	**1.1%**
Capital Expenditures	**91,150**	**-**	**91,150**	**94,250**	**3,101**	**3.4%**
Total	**$ 547,648**	**$ 4,127**	**$ 551,775**	**$ 559,820**	**$ 8,045**	**1.5%**
Subsidies	$ (187,045)	$ (2,308)	$ (189,352)	$ (186,635)	$ 2,717	(1.4)%
Other Revenues	(94,718)	-	(94,718)	(95,580)	(862)	0.9%
Revenues	**$ (281,763)**	**$ (2,308)**	**$ (284,071)**	**$ (282,215)**	**$ 1,856**	**(0.7)%**
Regional Tax Levy	**$ 265,885**	**$ 1,819**	**$ 267,704**	**$ 277,605**	**$ 9,901**	**3.7%**
Halton Regional Police Service	155,383		155,383	161,132	5,749	3.7%
Total Impact (Region & Police)	**$ 421,268**	**$ 1,819**	**$ 423,088**	**$ 438,737**	**$ 15,649**	**3.7%**
Assessment Growth (5 Year Average)						**1.7%**
Net Tax Impact (Including Police)						**2.0%**

May not add due to rounding

The Halton Regional Police Service 2019 forecast included an increase of 3.9% for 2020 (before assessment growth). In order to achieve an overall tax increase at or below the rate of inflation, an increase of 3.7% has been included for the Police.

Regional Council approved the 2019 net Regional levy requirement (including Police) of $421,268,435 through Report No. FN-06-19 (re: 2019 Budget and Business Plan and Disposition of the 2018 Surplus), which assumed 2018 in-year assessment growth of 1.5%. Further, FN-06-19 included a recommendation that any surplus or deficit resulting from a difference in the actual assessment growth from the budgeted assessment growth be transferred to/from the Tax Stabilization Reserve (501020). As outlined in Report No. FN-18-19 (re: 2019 Tax Policy), Halton's actual 2018 assessment growth was 1.95%, which was higher than the 1.5% that was budgeted, resulting in additional revenue of $1,819,111. Accordingly, this additional revenue was transferred to the Tax Stabilization reserve, resulting in the adjustment of the 2019 Approved Budget from $421,268,435 to $423,087,546. This one-time transfer has been removed in the 2020 Target Budget.

The 2019 Approved Budget has also been amended to reflect the following budget adjustments of $2.3 million, with no net Regional impact:

- $2.1 million in Children's Services as set out in Report No. FN-29-19 (re: Operating Budget Variance Report for the period ending April 30, 2019);
- $64,256 in Services for Seniors as set out in Report No. SS-06-19 (re: Services for Seniors Funding Increase – Behavioural Supports Ontario); and

- $149,964 in Housing as set out in Report No. SS-03-19 (re: Community Homelessness Prevention Initiative (CHPI) Annual Investment Plan and Federal Homelessness Enhancement).

The amended 2019 Budget will be incorporated into the 2020 Base Budget.

Base budget assumption increases incorporated in Budget Directions include:

- Inflation at 2.0% only when applicable
- Public Health subsidy at 0% for 2020
- Paramedic Services subsidy frozen at the 2018 level
- Removal of all one-time funding in 2019
- Various contract increases from 1.0% to 5.0%
- Compensation increases based on collective agreements and inflation

The base budget for Regional services in the 2020 Budget Directions has been prepared to ensure existing levels of service are maintained. To address the pressures identified for 2020, base budget savings will need to be identified to achieve the target of 3.7% for Regional Services before assessment growth.

As shown in the following table, after assessment growth of 1.7%, a target of 2.0% tax rate increase for Regional and Police services is projected. The targeted increase is consistent with the strategic priority of tax rate increases at or below the rate of inflation.

Property Tax Impact of Regional Government Services (Per $100,000 CVA)

	2019	2020	Change	
	Actual	Target	$	%
Regional Services	$ 174	$ 178	$ 4	2.0%
Police Services	101	103	2	2.0%
Total Regional Taxes	**$ 275**	**$ 281**	**$ 6**	**2.0%**

May not add due to rounding
Regional and Police Services include increases of 3.7% before 1.7% assessment growth to achieve the target increase

Based on these assumptions, the 2020 property tax impact for Regional Services would be an increase of $4 and the impact for Police Services would be an additional $2, resulting in a combined increase of $6 per $100,000 current value assessment (CVA). As an example, a home with a current value assessment of $400,000 would have a $24 increase in 2020, consisting of a $16 increase for all Regional services and an additional $8 for Police Services.

2020 Tax Budget Pressures

Achieving the 2020 Budget Directions Target will require a continued focus on core services, continuous improvement and finding cost efficiencies in all program areas.

Provincial Funding Impacts

- **Public Health** – The 2020 budget will be prepared based on Halton's understanding of the provincial direction which includes the subsidy level frozen and a funding split of 63/37 as per the actual 2018 Ministry settlement. This provincial direction will be challenging and will require identification of opportunities for savings.

  Since the delivery of the 2019 Provincial Budget, there have been a number of announcements regarding changes to both the structure and governance model of the existing Boards of Health. It has been proposed that the existing structure of 35 Boards of Health across the province will change to 10 Regional Public Health Entities (RPHE) governed by autonomous Boards, with the expectation that municipalities will continue to fund the cost of public health through property taxes. The Province has indicated that the creation of the new Entities is expected to occur on April 1, 2020. The Ministry of Health and Long-Term Care is currently consulting on this proposal and it is expected that the final direction from the Province will be determined this fall. Given the current uncertainty, the 2020 budget will be prepared reflecting a full 12 months of Public Health within the Region's budget. Staff will incorporate the best information available from the province through the 2020 budget process. As of July 4, 2019, the Province has not issued the 2019/2020 funding agreement to the Region of Halton for public health services and programs.

  Staff have also received notification of new provincial base funding for low-income seniors' dental services of $1.2 million for 2019/20, however a funding agreement with terms and conditions for implementation of the new program has not yet been received. Report No. MO-21-19 (re: Ontario Seniors Dental Care Program) provides an update on the new dental program and the challenges involved for Halton delivering a program as currently proposed by the Province. This new, enveloped funding will be incorporated into the 2020 budget with no net Regional impact.

- **Paramedic Services** – Regional staff have received the 2019/20 funding allocation for Paramedic Services which indicated that the funding amount has been held at the 2018/19 level, which was based on 2017 costs. This has resulted in a funding shortfall of $1.8 million in 2019. For the 2020 budget, it is anticipated that this funding will continue to be held at the 2018/19 level, which will require a subsidy reduction of $1.8 million in the 2020 budget. At the same time, increased costs associated with inflation, increasing call volumes, maintenance of response times to emergency calls, population and other growth pressures will continue needing to be addressed, putting additional pressure on the 2020 budget, particularly without increased subsidy levels. Given the nature of paramedic emergency services, it will not be possible to identify savings to fully offset these costs. The Region's share of the funding split for paramedic services is therefore expected to increase in 2020, putting significant pressure on the Region's budget.

In addition, pressure continues for the Dedicated Offload Nursing (DON) program where the funding commitment from the province is significantly lower than required to run the program at the needed level.

- **Children's Services** – The Ministry of Education has provided formal notification to the Region of reductions to funding for 2020, as well as changes to the cost sharing and administrative funding. These changes will include a new 80/20 cost-sharing requirement for Child Care Expansion Plan funding, elimination of the fee stabilization funding in 2020, as well as new cost-sharing for all administrative funding. The projected impact of these changes is a funding reduction of $2.7 million for the 2020 budget, including $1.5 million due to the new 80/20 cost-share in Expansion Plan funding, $765,000 due to the elimination of fee stabilization funding, and $397,000 in Wage Enhancement Grant administration funding. These changes will be incorporated in the 2020 budget; however the full details will not be known until the funding guidelines are received next year. Staff will attempt to identify savings to offset these impacts where possible.

- **Employment & Social Services** – The Ontario Works benefits are funded 100% by the Province, however the cost of administration is cost-shared. The 2019/20 program delivery funding allocation for the Ontario Works Cost of Administration and Employment Assistance funding is $105,000 less than anticipated in the 2019 budget mainly due to the per case subsidy funding being held at the 2018 level. The 2020 budget will incorporate this reduction and assume that the current funding level is frozen. There is also the risk of funding reductions in future years.

Additional Budget Drivers

- **Waste Management** – The 2020 operating budget will include increased contract costs to reflect inflationary contract increases and tonnage growth, with an additional increase of $160,000 to support anticipated organics processing market pressures.

  As approved by Council in Report No. PW-12-18 (re: Solid Waste Management Strategy Short Term Options), planning and implementation has begun for the short term options recommended in the Solid Waste Management Strategy. Staff will continue to monitor the forthcoming regulations of the *Waste-Free Ontario Act, 2016* and ensure that the impacts are taken into consideration when forming the medium and long term options which will be reported back to Council with the recommended final Solid Waste Management Strategy.

- **Transportation** – The road maintenance program continues to expand as the Region's transportation infrastructure grows resulting in a funding pressure on the operating budget due to increases in road maintenance costs and increased funding to support the road resurfacing program. Cost increases in hydro rates and growth in the number of street lights and traffic signals are expected to be fully offset with savings resulting from the implementation of light-emitting diode (LED) lighting.

The Region also needs to ensure that appropriate investment is made in the state-of-good-repair of existing road assets and expansion to accommodate growth. As shown below, a total of $1.5 billion is projected for the 10-year transportation capital program, which includes $1.3 billion for growth-related infrastructure cost (including $191 million to support non-growth) and $179.4 million for the state-of-good-repair (non-growth) program. In order to proceed with growth-related infrastructure an approved Financing Plan is required.

10-year Transportation Capital Program					
($000's)	2020	2021	2022	2023-2029	Total (2020-2029)
Capital Program - Total:	$ 238,466	$ 148,095	$ 132,917	$ 994,904	$ 1,514,382
Growth-related	216,767	116,210	113,552	888,446	1,334,975
State of Good Repair (Non-growth)	21,699	31,885	19,365	106,458	179,407

- **Supplementary Taxes** – The supplementary tax revenue budget is currently $6.5 million. The amount of supplementary taxes received by the Region fluctuates each year, averaging $7.4 million over the last 5 years and $6.8 million over the last 7 years. In the 2019 budget, supplementary taxes were reduced to $6.5 million from $7.0 million based on the 7-year trend at the time. Staff will continue to monitor and review whether the budget for supplementary tax revenue should be adjusted for the 2020 budget.

- **Other Tax Revenue** – The payment-in-lieu (PIL) and railway right-of-way (ROW) revenue budgets are currently $2.8 million and $1.3 million, respectively. Similar to supplementary taxes, revenue received from PIL and ROW tends to fluctuate, though not as significantly as supplementary taxes. PIL revenues have averaged $3.3 million over the last 5 years and $3.2 million over the last 7 years. ROW revenues have averaged $1.2 million over the last 5 and 7 years. Based on the 7-year trend, the 2020 budget for PIL will be increased by $400,000 to $3.2 million, and for ROW it will be decreased by $50,000 to $1.2 million.

- **Tax Write-Offs** – The Region continues to be faced with a risk of assessment appeals involving over 1,100 properties of mainly big box power centres and shopping malls. Successful appeals result in tax write-offs and, for the current year, would negatively impact the net assessment growth. The current budget for tax write-offs is $4.7 million. Tax write-offs have averaged $4.2 million over the last 5 years and $4.3 million over the last 7 years. In the 2019 budget, tax write-offs were increased to $4.7 million from $4.4 million based on the 7-year trend at the time. Staff will continue to monitor developments in the appeal process and review whether any adjustments are required for the tax write-off provision in the 2020 budget.

- **Municipal Property Assessment Corporation (MPAC) Service Costs** – MPAC service costs are anticipated to increase by 3.0% due to higher reassessment experienced in Halton as a result of the 2016 reassessment and a cost increase for 2020.

- **Investment Income** – After several interest rate increases in 2018 by the Bank of Canada, the Region has been able to increase the average yield of the portfolio and is forecast to meet or exceed the budget target for interest income in 2019. Staff will continue to monitor and review if any adjustments to the 2020 budget are required.

- **Boards & Agencies** – A budget guideline of 3.7% will be provided to Conservation Halton, Credit Valley Conservation and Grand River Conservation Authority in order to achieve an overall tax rate impact at or below the rate of inflation. The Conservation Authorities' 2019 forecast projected the following for 2020: Conservation Halton 4.5%; Credit Valley Conservation 4.1%; and Grand River Conservation Authority 3.5%. Regional staff continue to work with Conservation Halton to develop a sustainable financing strategy for their state-of-good-repair capital program. Additional state-of-good-repair levy funding for Conservation Halton may be required in 2020 to implement the financing plan, above the Council approved budget guideline.

  The Region has a commitment to provide a grant of $1.0 million to Halton Healthcare Services (HHS) as a result of the transfer of North Halton Mental Health Clinic (NHMHC) to HHS in 2018. This grant is not anticipated to increase in 2020. Regional staff will work with Ontario Health to identify alternative funding for NHMHC.

- **Halton Regional Police Service** – A budget guideline of 3.7% will be provided to the Police in order to achieve an overall tax rate impact at or below the rate of inflation. The 2019 forecast for the Police projected a 3.9% increase for 2020 before assessment growth. Regional staff will work with the Police to address identified pressures in their 2020 budget.

2020 WATER AND WASTEWATER RATE BUDGET DIRECTIONS

As shown below, Halton's average annual Water and Wastewater rate increase since 2008 has been 4.4%, while increases in other municipalities across the Greater Toronto Area and Hamilton have been higher. The increases in the water and wastewater rates are largely driven by requirements to support the state-of-good-repair capital program.

Municipality	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
Halton	6.5%	6.7%	0.0%	4.1%	3.5%	4.8%	4.3%	4.9%	5.0%	5.1%	3.8%	3.7%	4.4%
Toronto	10.2%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	8.0%	8.0%	5.0%	5.0%	4.0%	7.9%
Peel	9.0%	6.1%	5.0%	9.1%	8.0%	7.0%	7.4%	7.0%	9.0%	4.3%	6.5%	6.5%	7.1%
Durham	9.7%	7.6%	7.2%	4.5%	6.4%	8.4%	6.5%	5.0%	5.0%	3.6%	4.0%	1.8%	5.8%
Hamilton	8.9%	4.5%	4.0%	4.3%	4.3%	4.3%	4.0%	4.2%	4.7%	4.9%	4.5%	4.7%	4.8%

As shown in the following table, the 2019 Budget and Business Plan projected an overall rate increase for the 2020 Water and Wastewater budget of 3.9%, which is comprised of an inflationary operating increase and a state-of-good-repair capital increase, assuming consumption growth of 0.0% and customer growth of 1.5%.

Ten Year Operating Budget Forecast For Rate Supported Services										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Requested Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Net Program Impact ($000's)	$ 205,631	$ 214,981	$ 224,528	$ 234,479	$ 244,388	$ 253,061	$ 261,944	$ 271,123	$ 280,671	$ 290,593
Annual Water Consumption m^3 (000s)	52,913	52,913	52,913	52,913	52,913	52,421	51,934	51,452	50,974	50,500
Residential Bill (250 m^3 p.a.)	$ 999	$ 1,038	$ 1,078	$ 1,118	$ 1,159	$ 1,199	$ 1,241	$ 1,284	$ 1,329	$ 1,376
Annual % Rate Increase	**3.7%**	**3.9%**	**3.8%**	**3.8%**	**3.6%**	**3.5%**	**3.5%**	**3.5%**	**3.5%**	**3.5%**

2020 Rate Budget Target

The following table summarizes the 2020 Water and Wastewater Operating Budget Target based on the assumptions used in Budget Directions.

Rate Operating Budget by Expenditure Category				
($000s)	2019	2020	Change	
	Approved Budget	Target Budget	2020 Target / 2019 Budget	
Expenditures:				
Operating Expenditures:				
Personnel Services	$ 54,131	$ 56,274	$ 2,144	4.0%
Materials & Supplies	27,532	27,338	(195)	-0.7%
Purchased Services	33,717	34,398	681	2.0%
Financial and Rent Expenses	285	285	-	0.0%
Grants & Assistance	2,442	2,442	-	0.0%
Allocated Charges / Recoveries	(16,793)	(17,059)	(266)	1.6%
Corporate Support	15,307	16,400	1,093	7.1%
Transfers to Reserves - Operating	85	85	-	0.0%
Sub-total	**$ 116,705**	**$ 120,162**	**$ 3,457**	**3.0%**
Capital Expenditures	**106,542**	**112,533**	**5,991**	**5.6%**
Total	**$ 223,247**	**$ 232,696**	**$ 9,448**	**4.2%**
Revenues:				
Subsidies	$ (9,482)	$ (9,482)	$ -	0.0%
Other Revenues	(8,134)	(8,231)	(97)	1.2%
Total	**$ (17,616)**	**$ (17,713)**	**$ (97)**	**0.6%**
Net W/WW Rate Requirements	**$ 205,631**	**$ 214,982**	**$ 9,351**	**4.5%**
Consumption Growth				**0.0%**
Customer Growth				**1.5%**
Rate Impact				**3.9%**

The targeted 3.9% rate increase for Water and Wastewater services includes 1.4% related to the operating budget and 2.5% related to capital financing in support of the state-of-good-repair capital program.

A target of 3.9% increase is projected assuming customer growth of 1.5% and consumption growth of 0%.

The table below highlights the projected utility rate impact for a typical residential home using 250m^3 of water per year. The 3.9% rate increase represents an additional $39 in 2020 for both water and wastewater charges.

Rate Impact On a Typical Household (250 m³ / Year)							
		2019 Budget		2020 Target	Change*		
						$	%
Water	$	464	$	482	$	18	3.9%
Wastewater		535		556		21	3.9%
Total	**$**	**999**	**$**	**1,038**	**$**	**39**	**3.9%**

*Based on 0.0% consumption growth and 1.5% customer growth

2020 Rate Budget Drivers

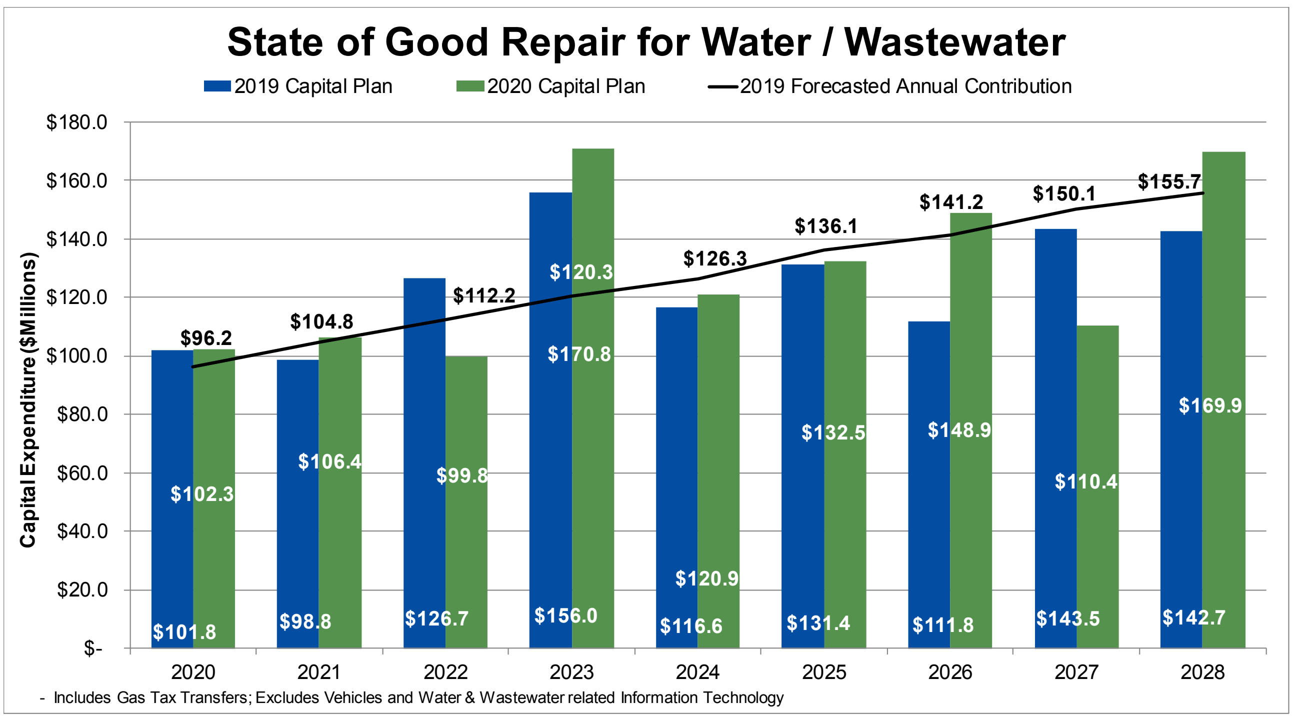
The following summarizes some of the challenges that must be addressed to achieve the 2020 Rate Supported Budget Target. Throughout the development of the 2020 budget, staff will review budgets and programs to identify opportunities for savings to reduce the rate increase below the 3.9% target.

- **Growth of the system** – As the water and wastewater infrastructure expands, there are additional requirements that impact the operating budget. In particular, the completion of upgrades and expansions at various treatment plants, enhancements to the level of treatment, and new and expanded pumping stations all impact annual electricity demand. Energy costs represent a significant portion of the water & wastewater operating budget. In coordination with the local hydro utilities, the Public Works department has initiated an Energy and Resource Management Initiative in an effort to identify opportunities to reduce electricity use and improve energy conservation. Regional staff actively manage hydro use where possible and consider increased efficiencies and conservation for energy use to offset increased hydro pricing. Furthermore, participation of eligible facilities in the Industrial Conservation Initiative, which allows eligible hydro customers to manage global adjustment costs by reducing demand during peak periods, has resulted in significant cost savings.

- **Long-Term Water Meter Strategy** – As indicated in Report No. PW-18-18 / FN-25-18 (re: Long Term Water Strategy), a Long Term Water Meter Strategy has been developed which recommends the development of a detailed implementation plan for the installation of a Region-Wide Advanced Meter Infrastructure (AMI) system. An AMI system would bring many benefits to the Region including revenue protection, operational efficiency, enhanced customer service, improved distribution system performance, and environmental benefits. The detailed implementation plan will be brought forward to Council later in 2019. The estimated capital implementation cost is $43.1 million of which $14.3 million will be brought forward for Council's consideration in the 2020 Budget.

- **Basement Flooding Mitigation** – Halton continues to implement the Region-wide Basement Flooding Mitigation program as set out in Report No. PW-18-16 (re: Region Wide Basement Flooding Mitigation) and Report No. PW-22-15 (re: Region Wide Flooding Mitigation Study: Final Report and Recommendations) and the related financial plan. The on-going investments will continue to be reflected in the 2020 Budget and Forecast.

- **State-of-Good-Repair** – A key objective of the annual budget is to invest appropriately in the state-of-good-repair to maintain the good overall condition of the assets as infrastructure ages and expands due to growth. The state-of-good-repair budget continues to be a key driver of the rate increases throughout the forecast with a 5.6% increase expected in 2020. Halton Region endeavours to reduce construction impacts on residents and businesses and achieve the lowest project delivery costs by bundling water, sewer, and road replacement components as large contracts where practical. This process will be further refined and formalized through the next phase of the Asset Management Roadmap Implementation – Optimized Decision Making. Accordingly, as shown in the chart below, the investment in the state-of-good-repair capital program has been adjusted with these principles and updated information from the Asset Management Plan risk registry.



Utility Revenue
As outlined in the 2017 Budget and Business Plan, the Region updated the water and wastewater rate structure and rate revenue forecast in 2017 and implemented a uniform rate, the removal of the residential wastewater cap, and the reduction of the budgeted water consumption from 54.8 million m^3 to 52.9 million m^3 to reflect actual trends. The 5-year actual water consumption is 53.2 million m^3. Given seasonal variability, the 2020 Budget Directions maintains the 52.9 million m^3 for consumption (0% growth) to reflect average seasonal conditions and water consumption trends. Customer growth is projected to be 1.5% in 2020.

FINANCIAL/PROGRAM IMPLICATIONS

As discussed above, the Regional 2020 Budget and Business Plan will be prepared such that the increase for the Tax Supported program is at or below the rate of inflation (2.0%), while the increase for the Water and Wastewater Rate related to operations is at or below the rate of inflation (2.0%), with a total rate increase including the state-of-good-repair capital program not to exceed 3.9%.

The budget direction for the Halton Regional Police Service, Conservation Halton, Credit Valley Conservation and Grand River Conservation Authority is a 3.7% budget increase, which includes inflation and growth. The budget direction for the Royal Botanical Gardens is a 2.0% budget increase.

Respectfully submitted,

Debbie Symons
Acting Director, Budgets and Tax Policy

Mark Scinocca
Commissioner, Finance and Regional Treasurer

Approved by

Jane MacCaskill
Chief Administrative Officer

If you have any questions on the content of this report, please contact: Debbie Symons Tel. # 7294

Attachments: Attachment #1 – Schedule for 2020 Budget and Business Plan