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The Regional Municipality of Durham Report

To: Finance and Administration Committee
From: Commissioner of Finance
Report: #2019-F-1
Date: January 15, 2019

Subject:

2019 Regional Business Plans and Property Tax Budget Guideline

Recommendation:

That the Finance and Administration Committee recommend to Regional Council that the following detailed direction and guidelines for the 2019 Business Plans and Budgets for the Durham Regional Police Services Board, Durham Region Transit Commission, Conservation Authorities, Durham Region Local Housing Corporation, Regional Operations and other Outside Agencies be approved:

- A) The 2019 Property Tax Guideline not exceed an overall tax impact of 2.2 per cent compared to the 2018 approved budget incorporating the following specific guidelines:
- i. The 2019 Business Plans and Budget for the Durham Regional Police Services Board not exceed \$206.65 million, an increase of approximately 3.9 per cent compared to the 2018 approved budget;
 - ii. The 2019 Business Plans and Budget for the Durham Region Transit Commission not exceed \$58.15 million, an increase of approximately 4.2 per cent compared to the 2018 approved budget;
 - iii. The 2019 Operating Budget for each Conservation Authority not exceed an increase of 2.5 per cent, plus or minus any current value assessment adjustments, and the 2019 Special Benefitting Programs Budget for each Conservation Authority not exceed an increase of 1.5 per cent, plus or minus any current value assessment adjustments, compared to the 2018 approved budget; and
 - iv. The 2019 Budget for the Durham Regional Local Housing Corporation not exceed an increase of 3.0 per cent for operations and 25.0 per cent for the capital program compared to the 2018 approved budget;

- B) The Commissioner of Finance provide the background for a Reserve Fund financing strategy including the purposes of the reserve funds, future requirements and recommendations for future contributions and uses as identified in the Servicing and Financing studies, with an interim report to be provided in February 2019 outlining the steps towards a final recommended Regional Long-Term Financial Planning Strategy prior to the 2020 business planning and budget deliberations; and
- C) Copies of this report be forwarded to the Durham Regional Police Services Board, Durham Region Transit Commission, Conservation Authorities, Durham Regional Local Housing Corporation and other Outside Agencies to guide the development of detailed 2019 Business Plans and Budgets.
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Report:

1. Overview

- 1.1 With new staff leadership at the Region, including a new Chief Administrative Officer (CAO) and Commissioner of Finance along with a dynamic senior leadership team, staff are taking this opportunity, in preparation for the 2020 budget process, to review the Region's business and financial planning processes to ensure modern, efficient and leading edge processes and strategies that address the diverse needs of the Region's various stakeholders including the public, businesses, investors, and credit rating agencies and to advance the long-term financial strength of the Region.
- 1.2 Throughout 2019 and beyond, staff under the leadership of the CAO will work to modernize programs and services by streamlining processes and achieving efficiencies across the organization. The 2019 Business Plans will set the stage for new and renewed objectives that will come with the new Corporate Strategic Plan which will be developed over the coming nine months.
- 1.3 In addition, financial reports and documents will be presented throughout 2019 to position the Region for the 2020 business planning cycle including a report in February 2019 on the proposed review of the Region's long-term financial strategy as well as the use and structure of reserve and reserve funds.

2. 2019 Guideline Overview

- 2.1 The purpose of this report is to seek Regional Council approval for an overall property tax guideline not to exceed a tax impact of 2.2. per cent (after assessment growth estimated at 1.7 per cent); along with the approval for the following specific guidelines for the Region's boards, commissions and outside agencies:
- The 2019 Business Plans and Budget for Durham Regional Police Services Board not exceed \$206.65 million, an increase of approximately 3.9 per cent compared to the 2018 approved budget;
 - The 2019 Business Plans and Budget for the Durham Region Transit Commission not exceed \$58.15 million, an increase of approximately 4.2 per cent compared to the 2018 approved budget;

- The 2019 Operating Budget for each Conservation Authority not exceed an increase of 2.5 per cent, plus or minus any current value assessment adjustments, and the 2019 Special Benefiting Programs Budget for each Conservation Authority not exceed an increase of 1.5 per cent, plus or minus any current value assessment adjustments, compared to the 2018 approved budget; and
 - The 2019 Budget for the Durham Region Local Housing Corporation not exceed an increase of 3.0 per cent for operations and 25.0 per cent for the capital program compared to the 2018 approved budget.
- 2.2 The overall property tax guideline of 2.2 per cent will result in a \$59 budgetary increase for an average residential property owner in Durham Region with a 2018 current value assessment of \$424,900.
- 2.3 The establishment of specific property tax guidelines at this time will provide direction and assist staff with finalizing the 2019 budget submissions for presentation to Regional Council in March 2019.
- 2.4 A multi-year economic and financial forecast will be presented in a report to Finance and Administration Committee in February 2019.
- 2.5 The setting of the recommended guidelines were achieved in consultation with the CAO, Regional departments, Durham Regional Police Services, Durham Region Transit, Durham Regional Local Housing Corporation and the Conservation Authorities through detailed review of their 2019 to 2023 operating pressures and 10 year capital priorities. In addition, changes in the local and broader economic, political and social environments were considered along with the risks and uncertainties facing the Region in the delivery of its programs and services.
- 2.6 The preliminary 2019 budget submissions include a number of base pressures and non-discretionary items that are required to continue to deliver the Region's existing programs and services including:
- The annualization of 2018 budgetary decisions and adjustments for one-time items included in the 2018 budget;
 - Contractual and inflationary increases;
 - Economic increases (salary/benefit contracts); and
 - Various revenue and subsidy impacts, with the most significant being the projected revenue decrease from the sale of blue box material resulting from market changes largely derived by the imposed restriction on the importing of certain wastes by the People's Republic of China.
- 2.7 Together these base pressures and non-discretionary items result in a net property tax increase of approximately 1.9 per cent. Staff continue to review these base submissions to look for efficiencies and savings to mitigate these impacts.

- 2.8 In addition to addressing the non-discretionary pressures, the guideline provides for limited strategic investments to support key priorities while balancing the need for taxpayer affordability and competitive property taxes.
- 2.9 The strategic investments identified in the 2019 submissions can be grouped under the following four key priority areas, namely:
- Innovate operations and administration
 - Respond to ongoing legislative and regulatory changes
 - Invest in infrastructure renewal
 - Manage the challenges of growth and affordability
- 2.10 The following four sections highlight the main 2019 budget initiatives under each of these key priority areas. Many of these initiatives are multi-year initiatives and will have impacts on the 2020 budget and beyond.

3. Innovate Operations and Administration

- 3.1 Durham Region must continue to adopt new ways of doing things to ensure that the Region delivers the services that citizens expect and remains responsive to changing community needs. The following are examples of identified 2019 priorities for innovating the Region's operations and administration:
- Formalization of the DRPS's Continuous Improvement Program with the establishment of a unit dedicated to building capacity and mitigating risks.
 - Paramedic Services in partnership with Family Services is completing the Primary Care Outreach Program Pilot in early 2019. This program provides services to support identified at risk communities, primarily those suffering with mental health and addiction related challenges. Continuing to provide this program to the community on a permanent basis will require the purchase of a dedicated vehicle and funding for ongoing annual operating costs.
 - Continued implementation of various strategic plans and studies including the Affordable and Seniors Housing Task Force, Enterprise Information Management Strategy, Customer Service Strategy, Diversity and Inclusion Strategy, Durham Community Energy Plan, Durham Community Climate Adaptation Plan, Corporate Innovation Program, Tourism Strategy and Transportation Master Plan.
 - Development of a new Regional Corporate Strategic Plan.
 - Implementation and training on the new Point Click Care software system in the Region's LTC homes.

- Upgrades and enhancements to Human Resource applications to improve performance management, talent acquisitions, job analysis reviews, electronic training programs and organizational development.
- Corporate Communications is forecasting increased resources for expanding the Region's digital media services and enhancing the engagement of residents and businesses.
- Implementation of the Region's new Development Tracking System which will allow applicants to submit planning applications electronically; allow the public self-service access to information about planning applications; and improve efficiencies in processing applications.
- Enhanced business support for Durham Region Transit to modernize and expand this growing service.
- 9-1-1 Emergency Telephone System IT infrastructure to support system upgrades.
- Support for new and existing information technology related initiatives and performance enhancements related to the Region's new website and data security.

4. Respond to Ongoing Legislative and Regulatory Changes

4.1 Provincial and Federal legislative, policy and regulatory changes can often impact the programs and services provided by the Region. The following are investments identified in the 2019 submissions that are contemplated as a result of legislative, policy and regulatory changes:

- Resources required to comply with the Ontario Public Health Standards and changes in health legislation and regulations.
- Increased resources to meet the requirements of the Provincial Nuclear Emergency Response Plan (PNERP).
- Increasing workplace safety and insurance (WSI) costs resulting from *Bill 163, Supporting Ontario's First Responder Act*.
- Additional investments in Durham Regional Police Services, Public Health and POA to respond to the *Cannabis Statute Law Amendment Act, 2018*.
- Additional resources to manage the increased POA prosecutions workload resulting from the anticipated transfer of Part III offences from the province to the Region.

- Results from the Public Inquiry into the Safety and Security of Residents in the Long-Term Care Home System are anticipated to be delivered on July 31, 2019. The findings may have an impact on policies, procedures, practices and accountability and oversight mechanisms in the long-term care home system.

5. Invest in Infrastructure Renewal

5.1 As part of the Region's Asset Management Plan, Regional Council approved the continued best business practice of allocating funds to address priority rehabilitation and replacement needs of Regional infrastructure systems as part of the 2019 Business Planning and Budget deliberations. As well, servicing and financing studies for major functional areas have been presented to Council that outline the key capital and program priorities for 2019 and onwards. With property tax supported assets valued at \$5.0 billion (with total assets including water and sewer valued at \$13.8 billion), ongoing investment is required to maintain existing infrastructure and capital assets. The following are examples of projected 2019 investments in renewing Regional infrastructure:

- Regional headquarters space optimization to defer building expansion.
- Increase in forecasted road and structure rehabilitation and Automated Traffic Management System upgrades.
- Replacement of the Clarington Paramedic Station.
- Ongoing facility maintenance costs and replacement of vehicles and equipment across the organization aligned with prudent asset management practices.
- Investment in a number of climate change initiatives that will strengthen the resiliency of Regional infrastructure and improve the environment are incorporated into the Region's submission for 2019 and the forecast including:
 - procurement of fuel efficient vehicles as part of the Region's vehicle replacement program;
 - ditch maintenance to reduce deterioration of road shoulders;
 - storm sewer maintenance to ensure functionality in the event of heavy rainfall;
 - optimization and maintenance of traffic signal timings and intersection design to mitigate congestion and improve traffic flows; and
 - energy-efficiency upgrades to various regional facilities.

6. Manage the Challenges of Growth and Affordability

6.1 Residential and non-residential growth across the Region puts significant pressure on services and infrastructure provided by the Region resulting in increased staff and space required to meet growing community needs while balancing taxpayer affordability. Given prevailing economic risks and uncertainties which will impact taxpayer affordability, including interest rates, high household debt load and the impact of shocks in the local labour market, there is concern that there be a balance between the needs of the programs and the impact that a property tax increase will have on taxpayers across the Region. The following are 2019 budgetary pressures resulting from growth demands:

- Increased investment in front line police staff and Investigative Services (Human Trafficking) to respond to increased service demands.
- Durham Region Transit service enhancements to service new growth areas, improve the high frequency network and existing connections, increase capacity on existing routes, service optimization and continue to expand service in North Durham.
- Provide for continued investment in winter control, storm sewers, traffic systems, engineering services, and facilities and fleet management to meet the growing service demands, maintain minimum service standards and meet legislative requirements.
- Operating costs for the new Municipal Household Hazardous and Special Waste facility in Clarington.
- New Seaton community needs including funding for the construction of a new paramedic station in Seaton.
- Paramedic response times continue to increase due to call volumes and increasing offload delay challenges driving the need for additional staff and related operating costs.
- Continuing work on the Municipal Comprehensive Office Plan Review.
- Enhancements to economic development marketing and strategic partnerships to attract residents, visitors and businesses to Durham Region.
- Staff are carefully reviewing and prioritizing 2019 staffing requests and looking for efficiencies and opportunities to minimize the new staff requests for 2019.

7. Conclusion

7.1 In conclusion, the recommended overall 2019 property tax guideline for Regional Departments, the Durham Regional Police Services Board, Durham Region Transit Commission, Durham Regional Local Housing Corporation and funded Outside Agencies will result in:

- A Region-wide property tax rate impact of 2.2. per cent, after approximately 1.7 per cent assessment growth;

- A Region-wide 2019 property tax supported net expenditure increase of approximately \$25.13 million on a total net budget of \$644.46 million; and
 - A \$59 budgetary increase for an average residential home in Durham Region with a 2018 current value assessment of \$424,900.
- 7.2 With the recent provincial changes and fiscal challenges, the Region faces increased risk of reduced provincial subsidies and grants. This guideline is based on the current status quo. The Region currently receives approximately 27 per cent of its annual revenues from provincial subsidies and grants. Reduction in provincial funding will have a significant impact on the Region's ability to continue to deliver the same level of programs and services into the future. The Region, through its long-term financial planning is positioned to be able to temporarily respond to any in-year reductions in provincial funding allowing program areas the time needed to adjust programs and services to the new provincial funding levels. However, the 2020 Business Plans and Budgets may be significantly impacted by the reduced funding.
- 7.3 As Council is aware we are expecting 2019 funding requests from outside agencies which will need to be considered as part of Regional Council's deliberation on the 2019 Business Plans and Budgets.
- 7.4 Regional departments, boards, commissions and outside agencies will continue to review their operating and capital business plans and budgets looking for efficiencies, prioritizing and making the necessary adjustments to balance competing priorities, capital requirements, and operating pressures to achieve Regional Council's approved property tax guideline. It is important to note that not all requests throughout the organization will be achieved within this guideline and many will need to be considered in future budget years.
- 7.5 The detailed 2019 Business Plans and Budgets are schedule to be presented to the appropriate Standing Committee or Transit Executive Committee during the week of March 5, 2019, Finance and Administration Committee on March 19, 2019 and Council on March 27, 2019.

Respectfully submitted,

Original Signed By

Nancy Taylor, BBA, CPA, CA
Commissioner of Finance

Recommended for Presentation to Committee

Original Signed By

Elaine C. Baxter-Trahair
Chief Administrative Officer