

Region of Peel Financial Impact Analysis of Service Delivery Models Final Report

21 May 2019

Disclaimer

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Executive Summary

The Region of Peel in collaboration with the municipalities of Brampton, Caledon and Mississauga commissioned the firm EY to conduct analysis of the potential impact of changes to governance as part of its input to the Regional Government Review being conducted by the Province of Ontario. Results of this work are presented in this Report: Financial Impact Analysis of Service Delivery Models, May 21, 2019.

- ▶ The Analysis was conducted between April 26, 2019 and May 21, 2019, and is a report provided by EY to the Region. So that the Analysis reflects a reasonable interpretation of the potential impact of alternative service delivery models, work was governed by a Steering Committee comprising each Chief Administrative Officer of the four municipalities participating in the Analysis (Brampton, Caledon, Mississauga, Peel Region) and their CFOs as Advisory Board members. The Steering Committee approved the approach, scope and assumptions framing the Analysis, enabled access to the referenced data from municipal budgets and plans, and provided review of and feedback on the Analysis throughout. Approximately 10 Steering Committee meetings were held; interviews with approximately 100 municipal officials were conducted; over 1,500 calculations of financial impact have been completed.
- ▶ The Analysis is strictly of the financial impact of potential changes to service delivery models under three scenarios: Status Quo, Amalgamation, Dissolution. Analysis is structured at the municipal service level (e.g., Roads, Transportation, Public Works, Police, Water and Wastewater, etc.), and at the consolidated level for each municipality. Detailed assumptions about the potential impact of a move to Amalgamation or Dissolution are presented in comparison to the Status Quo, focusing on the impact to net cost of service (NCOS), capital allocation, and debt allocation over a forecast period to 2028. Lower and Upper Bounds are presented to reflect alternative assumptions.
- ▶ Analysis indicates that on a consolidated basis over the forecast period, the total cost of Amalgamation ranges from a increase of \$13m to \$576m (\$2018), or 0.0% to 2.2% of total Status Quo NCOS. On an annualized basis, Amalgamation cost ranges from a decrease of \$11m to an increase of \$49m (\$2018), or -0.4% to 1.8% of annualized Status Quo NCOS, calculated in year 2022 at the end of the assumed amalgamation period.
- ▶ The total cost of Dissolution on a consolidated basis over the forecast period is modeled in the range \$16m to \$655m (\$2018), or 0.1% to 2.5% of total Status Quo NCOS. On an annualized basis, Dissolution cost is in the range of a decrease of \$6m to an increase of \$61m (\$2018), or -0.2% to 2.2% of annualized Status Quo NCOS, calculated in year 2022 at the end of the assumed dissolution period. A key driver of dissolution costs is the way Peel Regional Police would be dissolved, and is assessed using multiple options that on its own has a range of a decrease of \$1m to an increase of \$52m (annualized 2022 in \$2018).
- ▶ The Dissolution scenario has differential local tax impacts that result in a potential shift in tax burden as Regional services are transferred. A key driver in this is the Peel Regional Police dissolution model (two scenarios tested as outlined below). On an annualized basis at 2022, the calculated shift for Brampton ranges up to \$45m (\$2018); calculated shift for Caledon is as low as \$53m savings(\$2018); calculated shift for Mississauga ranges as high as \$84m (\$2018).
- ▶ For the Amalgamation scenario all capital and debt would be transferred to a new municipal entity.
- ▶ For the Dissolution scenario capital and debt allocations would result in a net increase by municipality. At the completion of dissolution modeled for 2022, Brampton would gain \$7.4bn in capital assets and \$749m in debt; Caledon would gain \$2bn in capital assets and \$71m in debt; Mississauga would gain \$8.8bn in capital assets and \$1.1bn in debt.
- ▶ Change in overall governance structure would necessitate specific strategies and approaches to manage any transition; current and future municipal officials would need to make important policy and administrative choices in response. The Analysis indicates the key areas of potential impact, identifies further work that would need to be conducted, and presents a financial model to help municipal managers analyze the impact of specific recommendations made by the *Regional Government Review* and any subsequent decisions taken by the Government of Ontario.

Project Scope

Section A



A1. Project Scope

The scope of Analysis was governed by terms established by the Region of Peel in collaboration with Brampton, Caledon and Mississauga and contained within the agreed Project Charter and associated contract. The project was governed by a Steering Committee comprising the chief administrative officers of each municipality and an Advisory Board comprising the chief financial officers of each municipality and was conducted between April 26, 2019 and May 21, 2019.

The project scope comprised three main components:

1. A model to enable financial analysis of the expenditures, non-tax and non-rate revenues, and assets by major service line and of consolidated positions of the four municipalities in scope (Brampton, Caledon, Mississauga, and Peel) under three service delivery models: Status Quo, Amalgamation, and Dissolution.
 - ▶ Within each service delivery scenario, feasible options were developed and assessed equally.
2. Assumptions were developed about how expenditures, non-tax and non-rate revenues, and assets might change in the Amalgamation and Dissolution scenarios compared to the Status Quo. Assumptions rely on analysis of current operations, interviews with officials from each municipality, and available relevant research.
 - ▶ The assumptions and sources were approved by the Steering Committee.
3. Presentation of potential financial impact of the three service delivery models such that the impact can be reported in total across all service lines and municipalities, and disaggregated by service line and municipality, from 2019 to 2028.
 - ▶ A view of the consolidated impacts of each scenario, with analysis, is provided.

Approach

Section B



B1. Main Dimensions of the Approach

The approach was approved by the Steering Committee and designed for analysis of potential service delivery model impacts. The model and analysis were created for use as a management tool for municipal officials and should enable on-going analysis. The analysis rests on defined assumptions that would need to be refined as specific dimensions of any dissolution or amalgamation event would be known. The analysis is restricted to a point-in-time assessment of what might happen under the conditions defined in the analysis; it is not a prediction of what will happen.

I. Governance

- ▶ The project was governed by the Steering Committee, which was responsible for reviewing and approving the approach, all assumptions, facilitating access to all data utilized in building the Status Quo financial model, validating that the data were utilized appropriately, and validating the analysis for the Amalgamation and Dissolution scenarios accurately reflects the underlying data and agreed assumptions.
- ▶ The Steering Committee met a total of ten (10) times during the course of the project for a total time of approximately 35 hours.
- ▶ Interviews were conducted with approximately 100 various municipal officials to clarify and validate utilization of data, to explain current service-line parameters, and to inform reasonable assumptions about potential impact of alternative service models.

II. Materiality of Analysis

- ▶ The following thresholds were established to help ensure the analysis focused on material issues:
 1. Materiality was defined as a percentage of each total municipal budget and accepted at the lowest level (i.e., smallest budget level, Caledon), and set at a level of 5%
 2. All non-material items were still included in the overall analysis, based on a higher level of assumption and modeling
 3. Material options/assumptions required and achieved agreement and signoff from the Steering Committee for inclusion in the analysis

B2. Main Dimensions of the Approach

III. Focus only on Financial Impact Analysis

- ▶ The analysis focuses solely on the potential financial impact of overall service delivery models (Status Quo, Amalgamation, Dissolution).
- ▶ It does not analyze the efficiency, effectiveness, productivity, equity, or any other dimension of current operations. All current service levels and forecast plans are taken as given and, unless specifically noted, are assumed to be held constant for purposes of financial impact analysis.
- ▶ This approach respects the sovereignty of current and future municipal Councils and managers to determine all choices about service levels, funding models, taxation levels, organizational and business models, management and business operations and processes, and all other dimensions of how the Region and municipalities operate.
- ▶ Risk analysis has been conducted to highlight key dimensions of financial impact.

IV. Approach to Enable Future Analysis

- ▶ The financial model was designed to enable future analysis by municipal officials. This reflects the fact that specific dimensions of how any given service delivery model (e.g., amalgamation, dissolution) might operate cannot be known at this stage, and will need to be assessed and refined in the future.
- ▶ The model is built such that inputs can be varied, assumptions can be modified, and analysis can be conducted on essentially all parameters that affect service-line and consolidated financial impacts. The analysis has been designed to provide significant flexibility for future users.

V. Reliance on Municipal Data

- ▶ The analysis is based on information and data provided by the Region of Peel, City of Brampton, Town of Caledon, and City of Mississauga. The analysis and report presents factual information as provided to EY. EY has not validated the completeness and accuracy of this information.
- ▶ The information and data provided prepared by municipal officials was based on their own information, and might include certain estimates. Actual results might differ from municipal estimates.
- ▶ All other data and information from research is referenced by source.

Service Delivery Models

Section C



C1. Service Delivery Models

The service delivery models frame the central part of the analysis. For each model the objective is to provide a consolidated view by municipality, a disaggregated view by service line, and combined views by service line and municipality. The objective is to provide analysis for each municipality of the potential financial impact of the three general models (Status Quo, Amalgamation, and Dissolution).

I. Service Line Analysis

- ▶ Service lines were identified for each municipality and materiality thresholds were assessed for each service line as a proportion of total cost of service for each municipality. Service lines that represent 5% or greater of total municipal expenditures were included for the identification of detailed assumptions and analysis; remaining service lines are included based on a more general set of assumptions. Table 1 presents the list of Service Lines.

¹ While under 5% of total expenditures, Fire and Waste Management are sufficiently complex to warrant a full analysis and are included in scope.

² While under 5% of total expenditures, Land Use Planning is greater than 5% of Caledon's total expenditures and as such is been included in scope.

³ All Other includes Libraries, Paramedics, Conservation, Culture, Public Health, Seniors Services

☐ = In-scope for in-depth analysis

* Except Region of Peel, where 2018 actual expenditures are not available and budget is used.

Table 1. Material Service Lines

Breakdown of 2018 actual* expenditures

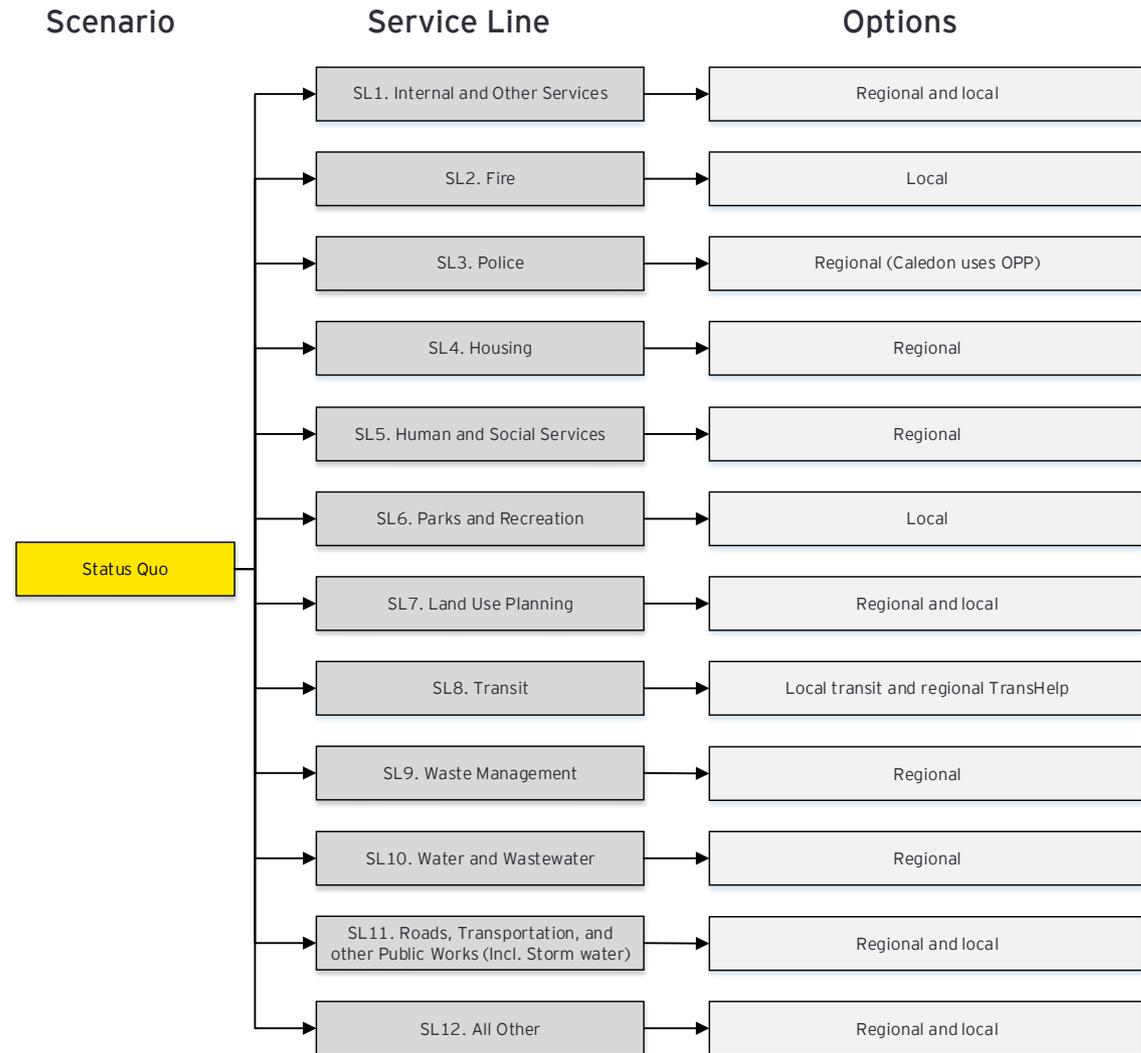
Service lines (SL)	% of Total Expenditure
SL1. Internal and Other Services	19.7%
SL2. Fire	4.7% ¹
SL3. Police	11.3%
SL4. Housing	5.0%
SL5. Human and Social Services	10.3%
SL6. Parks and Recreation	5.2%
SL7. Land Use Planning	1.4% ²
SL8. Transit	8.9%
SL9. Waste Management	3.5% ¹
SL10. Water and Wastewater	12.4%
SL11. Roads and transportation and Other Public Works (incl. storm water)	6.8%
SL12. All Other	10.8% ³

C2. Service Delivery Models

II. Status Quo Model

- ▶ The Status Quo model acts as the baseline for the analysis. It reflects the current, planned and forecast dimensions for each service line and municipality. Figure 1 presents the key parameters used in the analysis.

Figure 1. Parameters of the Status Quo Model

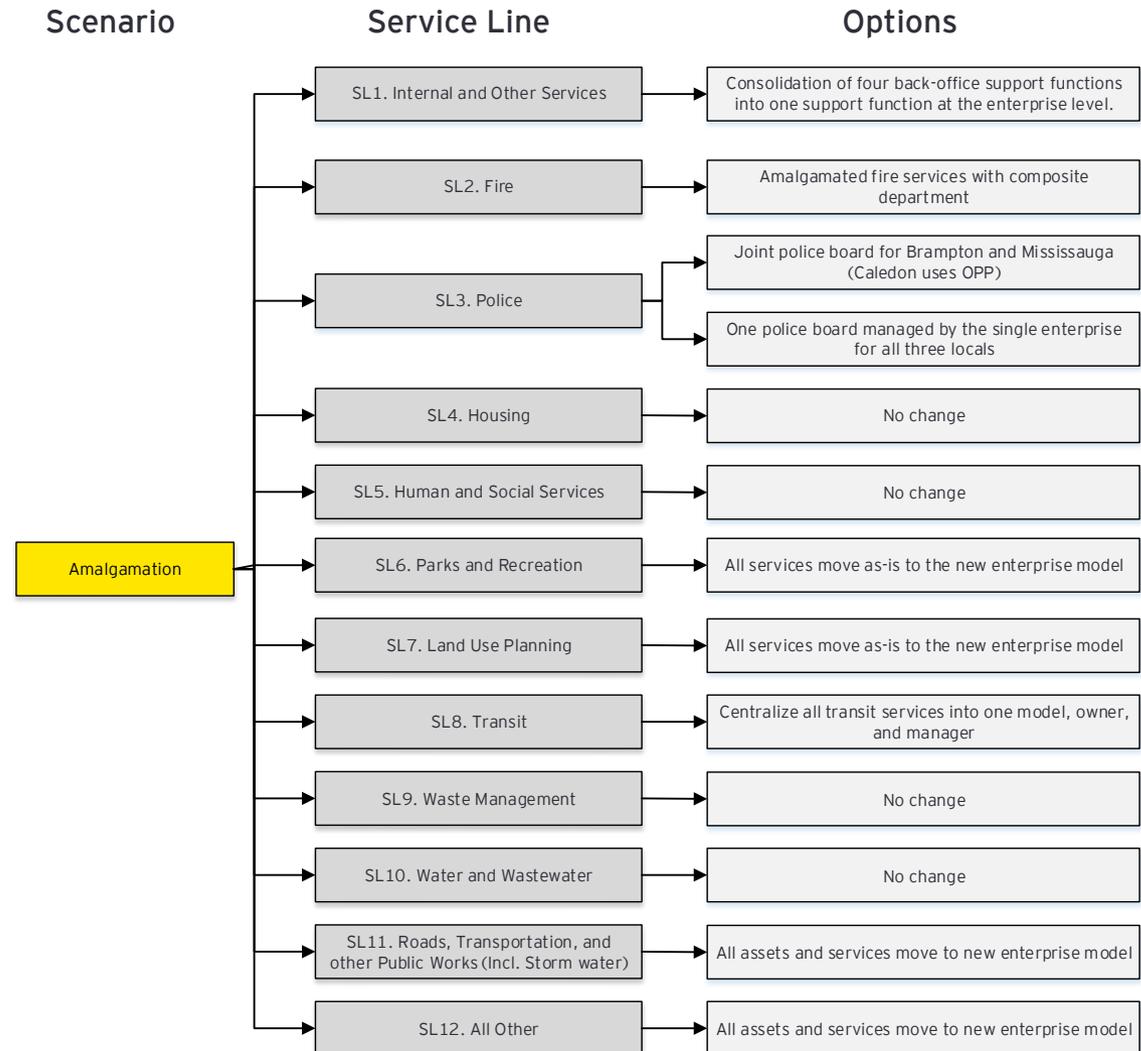


C3. Service Delivery Models

III. Amalgamation Model

- ▶ The Amalgamation model essentially creates a single municipality for the provision of all current services at the overall governance level and at the individual service line level. Figure 2 presents the key parameters used in the analysis.

Figure 2. Parameters of the Amalgamation Model

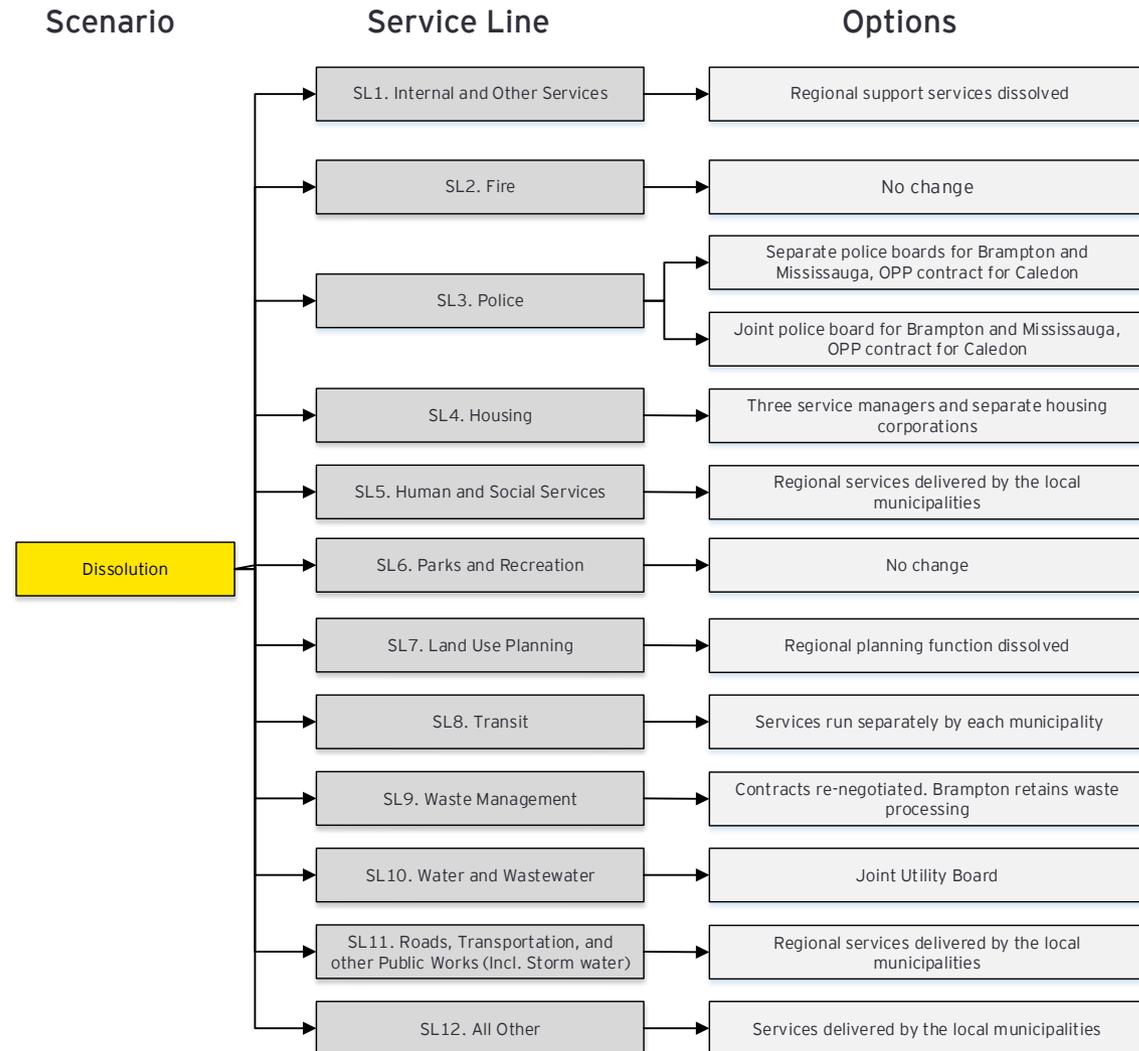


C4. Service Delivery Models

III. Dissolution Model

- ▶ The Dissolution model essentially splits the provision of all current Regional services to the three individual municipalities (Brampton, Caledon, Mississauga). In defined cases, a modified Status Quo model would be retained at the service line level due to the view that it represents the optimal model (e.g., a new Joint Utility Board for water and wastewater services). Figure 3 presents the key parameters used in the analysis.

Figure 3. Parameters of the Dissolution Model



Assumptions

Section D



D1. Assumptions

Assumptions have been determined and detailed at the general and service line levels. The basis of assumption and dollar value range is analyzed in each case and each assumption has been signed off by the Steering Committee. The assumptions drive the differences between the three service delivery models and have been built into the financial model such that specific assumptions can be modified in the future to maximize analytical flexibility.

I. General Assumptions

The general assumptions applied across multiple service lines / delivery models are:

1. Wage harmonization applied to situations where employees on different current rates are harmonized to the highest comparable level for equivalent roles, responsibilities and conditions (in both the Dissolution and Amalgamation scenarios). The assumption reflects analysis of collective agreements and associated precedent by the law firm, Hicks-Morley, under contract to EY.
2. Transition costs representing the one-time activities and costs required to manage transition at the overall entity and individual service line levels, including legal advice tied to contract transition, transformation advisory activities, and change management. Allocation of transition costs to specific activities and municipalities would be determined once specific service model changes are known.

II. Service Line Assumptions

- ▶ Service line assumptions drive a significant portion of the financial impact modelled by service delivery model. Detailed analysis leading to each assumption, by service line, was conducted, and ranges for each determined.
- ▶ For those service lines that do not have a material impact on the overall financial analysis (i.e., those that are less than 5% of total expenditure by municipality), a set of general assumptions was utilized.
- ▶ Impact of service line assumptions is reported in the analysis as a Lower and Upper Bound.

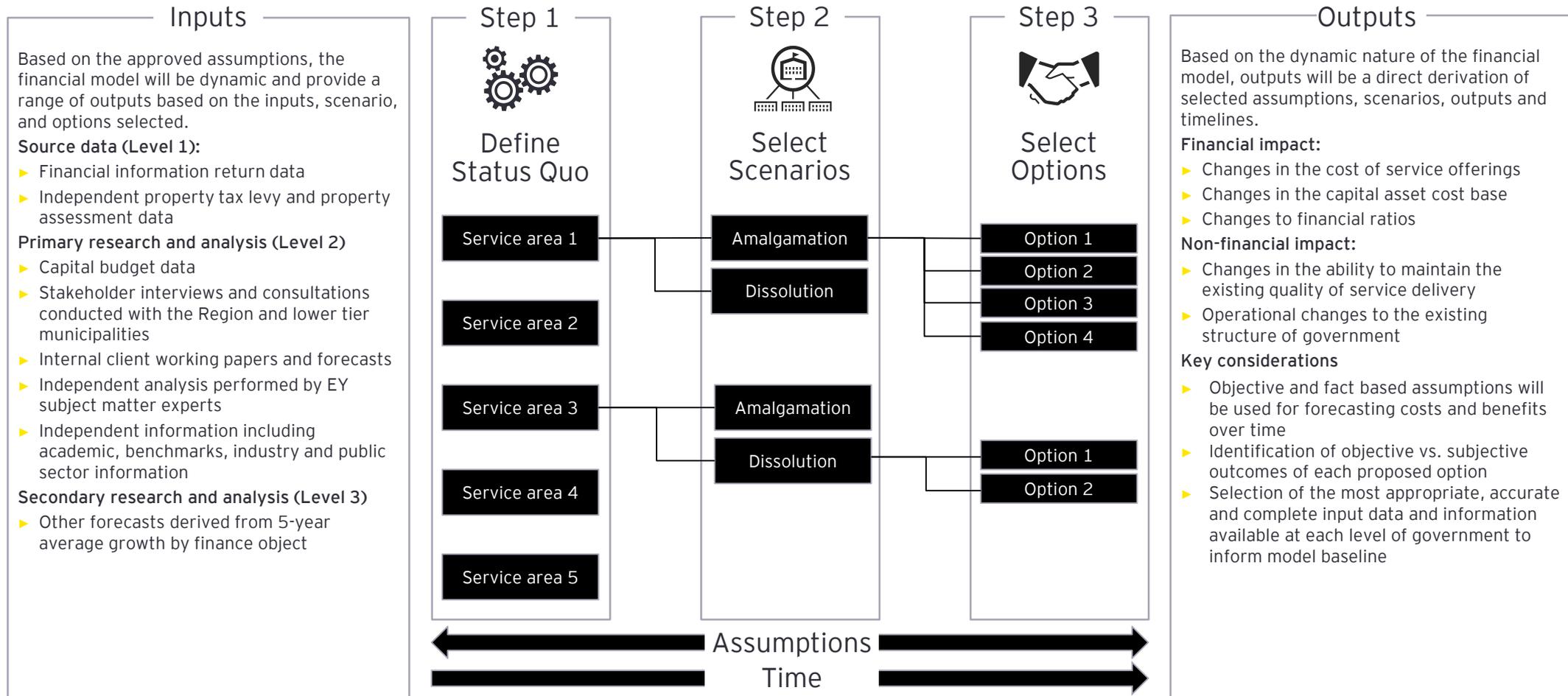
Financial Impact Analysis

Section E



E1. Financial Model

The financial model uses historical financial information, forecasted budgeted capital plans, wages and salaries, and full-time equivalent headcount for each municipality, with approved assumptions from the steering committee, to develop a flexible and dynamic financial model to assess the financial impact for various options under each scenario for the ten-year period 2019-2028.



E2. Status Quo: Consolidated Service Lines by Municipality

Net Cost of Service by Municipality

Financial impact analysis is driven off the baseline Status Quo model that forecasts the net cost of service for each municipality for the ten-year period 2019-2028. The Status Quo forecasts reflect known budget plans for each municipality and estimated growth thereafter based on agreed assumptions.

Figure 4. Net Cost of Service - Status Quo Consolidated by Municipality

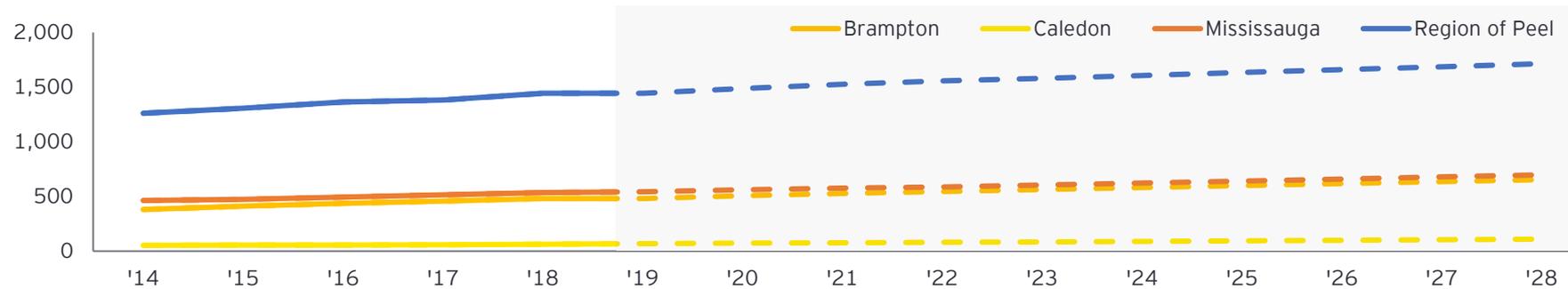


Table 2. Net Cost of Service - Status Quo Consolidated by Municipality

Net Cost of Service, \$ Million, Real 2018 dollars

Municipality	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Brampton	381	411	438	458	482	481	506	527	545	563	581	599	618	636	655
Caledon	52	56	56	58	63	69	73	76	80	84	89	93	98	103	109
Mississauga	464	473	493	514	535	543	562	576	587	605	622	641	660	679	699
Region of Peel	1,261	1,308	1,365	1,382	1,444	1,443	1,487	1,526	1,558	1,582	1,608	1,634	1,660	1,688	1,716
Total	2,157	2,248	2,352	2,413	2,524	2,536	2,627	2,705	2,770	2,834	2,900	2,967	3,036	3,106	3,178

Highlights of Analysis

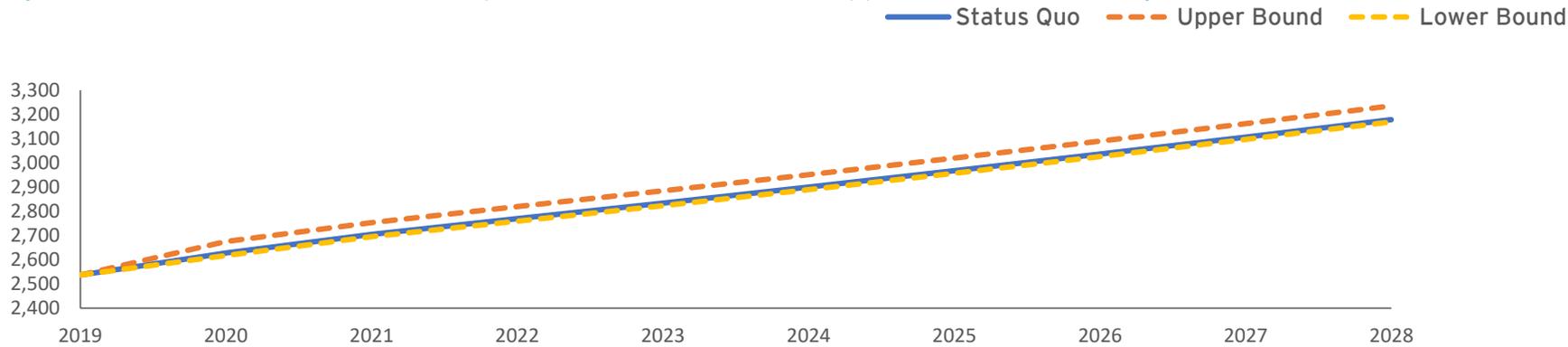
- Compound annual growth rates, by municipality in Status Quo are:
 - Brampton: 3.9%
 - Caledon: 5.5%
 - Mississauga: 3.0%
 - Region: 2.2%
- At a consolidated level, the compound annual growth rate is 2.8%
- In 2018, municipalities made up the following proportion of the aggregate service line expenditure:
 - Brampton: 19.1%
 - Caledon: 2.5%
 - Mississauga: 21.2%
 - Region: 57.2%

E3. Amalgamation: Consolidated Service Lines by Municipality

Net Cost of Service Status Quo vs. New Entity

Amalgamation consolidates all underlying service lines by municipality into a single "New Entity". The net cost of service is represented as a range between Upper and Lower Amalgamation Bounds, reflecting defined assumptions of changes to underlying service line costs. The amalgamation period is modelled to be complete by 2022.

Figure 5. Net Cost of Service - Comparison of Status Quo to Upper and Lower Amalgamation Bounds



Highlights of Analysis

Cumulative change from 2020 to 2028 Forecast

- The total net cost of service change is a decrease of \$92M to an increase of \$464M
- This is a (0.4%) to 1.8% change in total net cost of service

Annualized change in 2022 at completed amalgamation

- The one year net cost of service change is a decrease of \$11M to an increase of \$49M
- This is a (0.4%) to 1.8% change in total net cost of service in 2022

Source: Municipal data; model calculations

Table 3. Net Cost of Service - Comparison of Status Quo to Amalgamation model

Net Cost of Service, \$ Million, Real 2018 dollars

Status Quo	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2020 - 2028 Total	
Net cost of service	Brampton	481	506	527	545	563	581	599	618	636	655	5,229
	Caledon	69	73	76	80	84	89	93	98	103	109	806
	Mississauga	543	562	576	587	605	622	641	660	679	699	5,630
	Region of Peel	1,443	1,487	1,526	1,558	1,582	1,608	1,634	1,660	1,688	1,716	14,457
	Total	2,536	2,627	2,705	2,770	2,834	2,900	2,967	3,036	3,106	3,178	26,122
Amalgamation												
Net cost of service	Upper Bound	2,536	2,675	2,753	2,819	2,884	2,951	3,019	3,089	3,161	3,235	26,586
	Lower Bound	2,536	2,617	2,695	2,759	2,823	2,889	2,957	3,026	3,096	3,169	26,031

E4. Amalgamation: Consolidated Service Lines by Municipality

Impact on FTE Costs, Assets and Liabilities, and Transition Costs

Amalgamation assumes FTEs are consolidated and wages are harmonized with corresponding impact on FTE costs. Post-amalgamation assets and liabilities are consolidated to the New Entity.

Table 4. FTE Analysis - Amalgamation reported by municipality

	Pre-Amalgamation		Adjustments		Harmonization	Post-Amalgamation	
	Total FTEs	FTE Costs	FTE Adjustments	FTE Costs	Wage Harmonization Costs	Total FTEs	FTE Costs
Brampton	3,468	355.1	-	-	-	-	-
Caledon	396	41	-	-	-	-	-
Mississauga	4,595	495.3	-	-	-	-	-
Region of Peel	7,640	934.9	-	-	-	-	-
Total	16,099	1,826.3	(298 - 74)	(33.6 - 3.5)	59.4 - 60.4	15,801 - 16,025	1,852 - 1,883

Highlights of Analysis

FTE Adjustments

- Total annualized FTE costs are modeled to increase by \$26m - \$57m (\$2018)
- This represents a range of 1.4% to 3.1% increase over Status Quo

Capital and Debt Analysis

- All capital and debt is allocated to the new entity

Table 5. Capital and Debt Analysis - Amalgamation reported by municipality

	Pre-Amalgamation		At Amalgamation		Amalgamation Complete		Allocations	
	Capital	Debt	Capital	Debt	Capital	Debt	Capital	Debt
Brampton	3,797	23	-	-	-	-	(3,797)	(23)
Caledon	608	12	-	-	-	-	(608)	(12)
Mississauga	8,111	177	-	-	-	-	(8,111)	(177)
Region of Peel	14,804	1,908	-	-	-	-	(14,804)	(1,908)
New Entity	-	-	28,629	2,120	30,620	2,120	28,629	2,120

Source: Municipal data; model calculations

E5. Amalgamation: Consolidated Service Lines by Municipality

Net Cost of Service Change by Service Line

Amalgamation assumes FTEs are consolidated and wages are harmonized with corresponding impact on FTE costs. Post-amalgamation assets and liabilities are consolidated to the New Entity.

Table 6. Net Cost of Service - Change in NCOS for Amalgamation v. Status Quo at the Service Line Level

Service Line	Status Quo	Amalgamated Entity		\$ Change		% Change	
		Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
SL1. Internal and Other	586	566	585	(20)	(1)	(3.4%)	(0.2%)
SL2. Fire	216	222	223	6	7	2.8%	3.2%
SL3. Police	461	461	467	-	6	-	1.3%
SL4. Housing	125	125	125	-	-	-	-
SL5. Human and Social Services	61	61	61	-	-	-	-
SL6. Parks and Recreation	125	119	144	(6)	19	(4.8%)	15.2%
SL7. Land Use Planning	16	14	17	(2)	1	(12.5%)	6.3%
SL8. Transit	187	187	198	-	11	-	5.9%
SL9. Waste Management	113	113	113	-	-	-	-
SL10. Water and Wastewater	437	437	437	-	-	-	-
SL11. Roads and transportation and Other Public Works (incl. Stormwater)	215	222	222	7	7	3.3%	3.3%
SL12. All Other	229	232	233	3	4	1.3%	1.7%
Total	2,770	2,759	2,819	(11)	49	(0.4%)	1.8%

Highlights of Analysis

Annualized change in 2022 at completed amalgamation

- On a gross basis, the most significant reduction in annualized NCOS would come from Internal and Other Services
- On a gross basis, the most significant increases in annualized NCOS would come from:
 - Roads and transportation and Other Public Works
 - Fire
 - All Other
- The largest ranges are for Parks and Recreation and Land Use Planning

Net Cost of Service, 2022, \$ Million, Real 2018 dollars

Source: Municipal data; model calculations

E6. Dissolution: Consolidated Service Lines by Municipality

Net Cost of Service Status Quo vs. Dissolution

Dissolution allocates current Region of Peel services to the single-tier municipalities on the agreed basis with corresponding impact on Upper and Lower Dissolution Bound net costs of service. The dissolution period is modelled to be complete by 2022.

Figure 6. Net Cost of Service - Comparison of Status Quo to Upper and Lower Dissolution Bounds

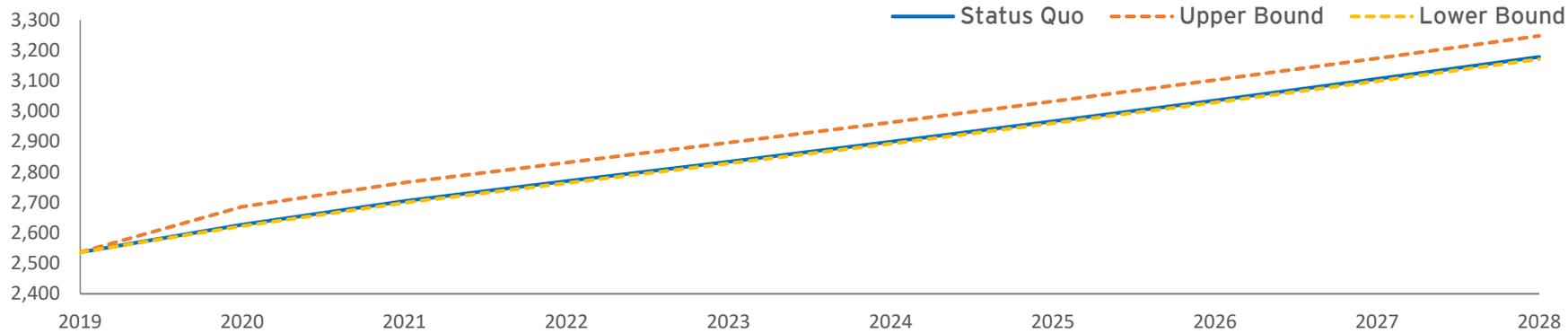


Table 7. Net Cost of Service - Comparison of Status Quo to Dissolution

Net Cost of Service, \$ Million, Real 2018 dollars

Status Quo	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2020 - 2028 Total
Net cost of service											
Brampton	481	506	527	545	563	581	599	618	636	655	5,229
Caledon	69	73	76	80	84	89	93	98	103	109	806
Mississauga	543	562	576	587	605	622	641	660	679	699	5,630
Region of Peel	1,443	1,487	1,526	1,558	1,582	1,608	1,634	1,660	1,688	1,716	14,457
Total	2,536	2,627	2,705	2,770	2,834	2,900	2,967	3,036	3,106	3,178	26,122
Dissolution											
Net cost of service											
Brampton	-	1,071 - 1,095	1,107 - 1,131	1,136 - 1,161	1,164 - 1,190	1,192 - 1,219	1,221 - 1,248	1,250 - 1,278	1,279 - 1,308	1,309 - 1,338	10,728 - 10,969
Caledon	-	142 - 143	147 - 148	152 - 154	157 - 158	162 - 163	167 - 168	172 - 173	177 - 179	183 - 184	1,458 - 1,469
Mississauga	-	1,409 - 1,448	1,446 - 1,486	1,476 - 1,516	1,507 - 1,549	1,540 - 1,582	1,573 - 1,616	1,607 - 1,652	1,643 - 1,688	1,679 - 1,725	13,880 - 14,262
Total	-	2,622 - 2,686	2,699 - 2,765	2,764 - 2,831	2,828 - 2,897	2,893 - 2,964	2,960 - 3,032	3,029 - 3,103	3,099 - 3,174	3,171 - 3,248	26,067 - 26,700

Highlights of Analysis

Cumulative change from 2020 to 2028 Forecast

- The total net cost of service change ranges from a decrease of \$56M to an increase of \$578M
- This represents a 0.2% to 2.2% change in total net cost of service

Annualized change in 2022 at completed dissolution

- The one year net cost of service change is an decrease of \$6M to an increase of \$61M
- This is a (0.2%) to 2.2% change in total net cost of service in 2022

Source: Municipal data; model calculations

E7. Dissolution: Consolidated Service Lines by Municipality

Impact on FTE Costs, Assets and Liabilities, and Transition Costs

The Dissolution assumes Regional FTEs are allocated with corresponding impact on FTE costs. Post-dissolution assets and liabilities are consolidated to the single-tier municipalities.

Table 8. FTE Analysis - Dissolution reported by municipality

	Pre-Amalgamation		Adjustments		Harmonization	Post-Amalgamation	
	Total FTEs	FTE Costs	FTE Adjustments	FTE Costs	Wage Harmonization Costs	Total FTEs	FTE Costs
Brampton	3,468	355.1	-	-	-	-	3,468
Caledon	396	41	-	-	-	-	396
Mississauga	4,595	495.3	-	-	-	-	4,595
Region of Peel	7,640	934.9	-	-	-	-	7,640
Total	16,099	1,826.3	(39) - 359	(6) - 53	16,060 - 16,458	1820.3 - 1879.3	16,099

Table 9. Capital and Debt Analysis - Dissolution reported by municipality

	Pre-Amalgamation		At Amalgamation		Amalgamation Complete		Allocations	
	Capital	Debt	Capital	Debt	Capital	Debt	Capital	Debt
Brampton	3,797	23	6,204	273	11,170	772	7,373	749
Caledon	608	12	1,210	36	2,617	83	2,009	71
Mississauga	8,111	177	10,942	540	16,867	1,265	8,757	1,088
Region of Peel	14,804	1,908	10,273	1,272	-	-	(14,804)	(1,908)

Source: Municipal data; model calculations

Highlights of Analysis

Capital and Debt Analysis

- At the completion of dissolution modeled for 2022, the impact is a net increase as follows:
- Brampton: Capital of \$7.4bn (\$2018) (c. 2.5 times higher than current) and Debt of \$772m (\$2018) (c. 33.6 times higher than current)
- Caledon: Capital of \$2.0bn (\$2018) (c. 2.2 times higher than current) and Debt of \$83m (\$2018) (c. 7.1 times higher)
- Mississauga: Capital of \$8.8bn (\$2018) (c. 2.0 times higher than current) and Debt of \$1.0bn (\$2018) (c. 7.1 times higher than current)

E8. Amalgamation and Dissolution: Transition Costs

Impact on Transition Costs

Table 10. One-time transition costs - Amalgamation and Dissolution

\$ Million, Real 2018 dollars

Benchmarking approach		Amalgamation	Dissolution ²
Transition board budget ¹		12	12
Change management, restructuring & transition support	Integrated policy, consulting, regional systems, and supplies	36	36
	Customer facilitation, project management, change management	15.5	15.5
IT	Corporate management systems, new municipal budget system, purchasing and payable systems, record management system	4.5	4.5
Land use planning	Development of new zoning bylaws, consolidation of plans and agreements, needs assessments and other studies	16.5	NA
Fire	Software integration, other associated costs	4	NA
Parks and recreation	Information system integration, other associated costs	2.6	NA
Roads and transportation and other public works	Information system integration, other associated costs	1	NA
Subtotal		92.1	68
Other Calculations			
Workforce adjustment costs	Severance pay	12.5 - 19.5	5 - 10
ERP	Consolidated ERP system	Immaterial	NA
Grand total		104.6 - 111.6	73 -78

Case study: Hamilton amalgamation (all values in 2018 real dollars)

Source: Rinaldo, J. (2001) Updated Estimates of Amalgamation Costs for New City of Hamilton

Notes:

1. Transition Board Budget includes costs associated with the setup and operation of a transition board for the new municipal structure, as well as expenses to set up the joint boards for utilities and police
2. Dissolution costs represent expenditures across all municipalities, quantified as a cumulative amount
3. One-time costs of transition in dissolution are allocated to municipalities on the basis of the proportion of the dissolved Region's net costs of service assumed. This would be Brampton 38%, Caledon 5% and Mississauga 57%

Highlights of Analysis

One-time Transition Costs

- One-time transition costs support completion of amalgamation and dissolution by 2022
- Change management, restructuring and transition support, transition board budget, and workforce adjustment costs represent the most significant one-time transition costs

Notes

- Over 1,000 contracts were reviewed with no material termination costs or contract transfer costs identified
- Allocation of costs by service line or municipality would need to be determined in the future based on the specific requirements of transition

E9. Dissolution: Consolidated Service Lines by Municipality

Net Cost of Service Change by Service Line

Change in net cost of service for the Dissolution model compared to the Status Quo can be reported at the service line level by municipality. Upper and Lower Dissolution Bounds are determined at the service line level based on the agreed assumptions.

Table 11. Net Cost of Service - Change in NCOS for Dissolution v. Status Quo at the Service Line Level by Municipality

Service Line	Status Quo	Dissolved Entities								\$ Change		% Change	
		Brampton		Caledon		Mississauga		Consolidated					
		Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
SL1. Internal and Other	586	267	269	47	47	261	264	574	580	(12)	(6)	(2.0%)	(1.1%)
SL2. Fire	216	83	83	9	9	125	125	216	216	0	0	0.1%	0.1%
SL3. Police	461	170	190	13	14	277	309	460	513	(1)	52	(0.1%)	11.2%
SL4. Housing	125	39	39	6	6	81	83	126	128	1	3	0.5%	2.7%
SL5. Human and Social Services	61	30	30	2	2	32	32	63	64	2	3	3.3%	4.7%
SL6. Parks and Recreation	125	57	57	11	11	57	57	125	125	(0)	(0)	(0.1%)	(0.1%)
SL7. Land Use Planning	16	3	4	0	0	8	9	12	13	(4)	(3)	(26.5%)	(16.5%)
SL8. Transit	187	80	80	0	0	107	107	187	187	0	0	0.1%	0.1%
SL9. Waste Management	113	48	48	7	7	59	60	114	115	1	2	0.7%	1.7%
SL10. Water and Wastewater	437	179	179	15	15	244	244	437	437	0	0	0.0%	0.0%
SL11. Roads and transportation and Other Public Works (incl. Stormwater)	215	95	95	28	29	94	95	218	218	3	3	1.3%	1.4%
SL12. All Other	229	87	88	16	16	130	132	233	236	4	7	1.7%	3.0%
Total	2,770	1,136	1,161	152	154	1,476	1,516	2,764	2,831	(6)	61	(0.2%)	2.2%

Highlights of Analysis

Annualized change in 2022 at completed dissolution

- On a gross basis, the most significant reduction in annualized NCOS would come from Internal and Other Services, followed by Land Use Planning
- On a gross basis, the most significant increases in annualized NCOS would come from:
 - Human and Social Services
 - All Other
- The range of potential impact for Peel Regional Police reflects two allocation models - one by MPAC assessment, the other by a weighted average based 50% on property count and 50% on time-weighted calls for service

Net Cost of Service, 2022, \$ Million, Real 2018 dollars

Source: Municipal data; model calculations

E10. Dissolution: Consolidated Service Lines by Municipality

Impact on Transition Costs

The financial metrics analysis is driven off of the baseline Status Quo model that forecasts assets, liabilities, non-tax revenue, operational expenditure and known budgeted capital expenditure for each municipality for the ten-year period 2019-2028. The Status Quo forecasts reflect known budget plans for each municipality and estimated growth thereafter based on agreed assumptions. The below analysis provides commentary on the financial health for the new amalgamated entity and each municipality as at 2022, the year assumed the proposed change in governance would be complete.

Amalgamation

- The increase in operational spending is greater than the increase in operating balance, reducing the operating balance to operational spending ratio relative to the status quo
- Increased non-tax revenues are offset by increases in operating expenditure, resulting in a decrease to non-tax revenues as a percent of operating expenditures
- Growth in non-tax revenue is much greater under amalgamation than the growth of non-tax revenue under dissolution, strengthening the operating balance overall
- The modelled newly amalgamated entity's long-term debt to operational spending is similar to the combined financials of each municipality under the status quo scenario, with slightly higher operating expenditure, resulting in a lower ratio of long-term debt to operating expenditure

Dissolution

- An increase in operating spending offsets the increase in operating balance, reducing the operating balance to operational spending ratio relative to the status quo
- The higher cost scenario reduces operating balance relative to the operational spending, largely driven by changes in wage harmonization costs
- Given the Region's relatively large balance of tangible capital assets and long-term debt, each respective municipalities' long-term debt to operating expenditures increase upon receipt of its allocated share of the Region's long-term debt
- The aggregate tangible capital assets and long-term debt do not vary materially from the Status Quo

Recommended for Further Analysis

Section F



F1. Recommended for Further Analysis

It is unknown currently whether any service delivery model changes will affect the Region of Peel. The analysis presented herein offers an indication of the potential impact under the modelled assumptions. Further analysis would be required to analyze the impact of specific changes once they become known. Key areas of further analysis are outlined below and reflect both the unknown dimensions of a future change, and the known areas for further analysis identified as part of the current assignment.

A. Response to a change in overall service delivery models and governance

Once any Provincial decision is taken that would affect service delivery model and governance changes, key issues to be addressed would include:

- ▶ Detailed examination of the Provincially mandated changes to identify the specific parameters in play. Emphasis should be on:
 1. Changes to overall legislation and regulations that establish mandate and authority for the new jurisdictions.
 2. Detailed mapping of any such changes to the Status Quo to identify specific implications for the existing municipalities and service lines.
 3. Analysis of the financial and service-level impact of mandated changes to inform transition strategies.

- ▶ Detailed transition planning will be required and should include at a minimum focus on the following:
 1. Regardless of the specifics of mandated changes, each jurisdiction should engage in detailed transition planning and risk management to ensure all obligations are appropriately discharged.
 2. Focus should be on strategies and tactics to maintain and/or enhance service levels for recipients, ensure appropriate treatment of directly and indirectly affected stakeholders, employees, commercial partners, ratepayers, taxpayers, and constituents in response to the Provincially mandated changes.
 3. Development of a transition management approach with necessary financial, staffing, workplans, schedules, engagement, communication, risk management, change management, benefits tracking, and reporting functions.
 4. Transition costs may or may not be partially or wholly funded by the province. Municipalities should seek to understand how they may be supported in such a scenario and seek to optimize any available transition support.

F2. Recommended for Further Analysis

It is unknown currently whether any service delivery model changes will affect the Region of Peel. The analysis presented herein offers an indication of the potential impact under the modelled assumptions. Further analysis would be required to analyze the impact of specific changes once they become known. Key areas of further analysis are outlined below and reflect both the unknown dimensions of a future change, and the known areas for further analysis identified as part of the current assignment.

B. Items identified as part of the current analysis

- ▶ As more information becomes available about recently announced Provincial measures affecting the four current municipalities, each municipality should assess the financial impacts of new policies and develop appropriate plans in response. For example, changes to provincial funding levels and delivery models related to areas such as public health, paramedic services, social assistance and employment, child care, housing and homelessness, and the Ontario Municipal Board should be analyzed to determine impacts. Once these impacts are known, an update to the financial impact analysis of potential service delivery model changes should be provided for the Status Quo, Amalgamation, and Dissolution scenarios.
- ▶ The identification of the means for funding any additional expenditures that have been identified in the scenarios will be the decision of elected officials. Funds can be made available a number of ways including development charges, service level and delivery changes, tax rates and ratios. Specific analysis of such decisions would need to be assessed (e.g., analysis of broader economic impact and/or the costs and benefits of potential policy changes).
- ▶ Should overall governance changes require an alternative to the Status Quo, analysis of direct impact on service levels and beneficiaries should be considered as part of analysis provided to elected officials for required specific policy choices.
- ▶ Once any specific governance changes are known, updated analysis of the key drivers of impact modelled in the current assignment should be provided, with a focus on the areas of most significant potential impact. For example these areas could include:
 1. FTE impacts and wage harmonization.
 2. Potential policy decisions to amalgamate service levels (e.g., Parks and Recreation).
 3. Various police governance and funding model choices.

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