

## Budget Committee

<b>Meeting No.</b>	19	<b>Contact</b>	Matthew Green, Committee Administrator
<b>Meeting Date</b>	Monday, November 23, 2020	<b>Phone</b>	416-392-4666
<b>Start Time</b>	9:30 AM	<b>E-mail</b>	buc@toronto.ca
<b>Location</b>	Video Conference	<b>Chair</b>	Councillor Gary Crawford

BU19.9	ACTION	Adopted		Ward: All
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### Operating Variance Report for the Nine Months Ended September 30, 2020

**Committee Decision**

The Budget Committee recommends to the Executive Committee that:

1. City Council approve the budget adjustments and any associated complement changes detailed in Appendix D to the report (November 10, 2020) from the Chief Financial Officer and Treasurer, to amend the 2020 Approved Operating Budget, such adjustments to have no impact on the 2020 Approved Net Operating Budget of the City.

**Origin**

(November 10, 2020) Report from the Chief Financial Officer and Treasurer

**Summary**

The purpose of this report is to provide City Council with the Operating Variance for the nine months ended September 30, 2020 as well as projections to year-end. This report also requests City Council's approval for amendments to the 2020 Approved Operating Budget that have no impact on the City's 2020 Approved Net Operating Budget.

Since mid-March, the City of Toronto, consistent with other major Canadian and Greater Toronto and Hamilton Area municipalities has been experiencing significant financial impacts, both in the form of added costs and revenue losses as a direct result of the COVID-19 pandemic.

COVID-19 related financial impacts are anticipated to total \$1.716 billion by year-end for the City of Toronto, prior to offsets achieved through a series of implemented mitigation strategies that focus on spending and workforce restraints (\$533.8 million); and phase 1 Safe Restart Agreement funding confirmed in August (\$669 million), reducing the year-end shortfall to a projected \$514.1 million.

- COVID-19 related financial impacts predominantly reflect revenue losses, which account for approximately 80% of total COVID-19 impacts;
- Mitigation strategies are expected to collectively generate \$533.8 million in total offset by year-end, comprised of \$499.7 million in savings from workforce restraints, spending

constraints and cost avoidance; \$34.1 million in added offsets available from budget variance; and included the elimination of inflationary general salary increases for Non-Union staff, Mayor and Council; and

- On August 12, 2020 Safe Restart Agreement funding allocations for the City of Toronto as part of the phase 1 funding were identified totalling \$669 million as follows:

- Municipal Transit Funding Phase 1 - \$404.1 million allocated to Toronto proportionately based on ridership;
- Social Services Relief Fund Phase 2 - \$118.7 million allocated to Toronto in addition to the \$39 million previously received as part of Phase 1 funding; and
- Municipal Operating Funding Phase 1 - \$145.7 million allocated to Toronto proportionately based on households.

The table below details the anticipated 2020 City-wide COVID-19 related financial impacts; projected offset from mitigations strategies and phase 1 Safe Restart Funding; and the resulting financial position that is reflected in the year-end variance projections:

Table 1 - 2020 Projected COVID-19 Financial Impacts

Description (\$Millions)	Year-End Projections			Net Impacts	Comments
	Impacts	Savings / Offset*	Phase 1 Safe Restart Funding		
City Tax Supported Programs	1,636.1	(533.8)	(668.5)	433.8	Reflected in Table 2
Toronto Parking Authority	66.8			66.8	Reflected in Table 3
Toronto Community Housing	13.5			13.5	Not Reflected in City Variance Reporting
Total Projected 2020 Year-End Shortfall	1,716.4	(533.8)	(668.5)	514.1	Prior to Safe Restart Phase 2 Funding

\*Year-to-date savings of \$13.0M (Toronto Parking Authority) and \$1.3M (Toronto Community Housing Corporation) are reflected in impacts and factored in Year-End projections

#### Tax Supported Programs:

The following table summarizes the anticipated year-end COVID-19 financial Impacts; projected offset from mitigations strategies and phase 1 initial Safe Restart funding; and the resulting financial position of the City's Tax Supported Operations as of September 30, 2020 and the projection at year-end:

Toronto Parking Authority and Toronto Community Housing variance information is not reflected in table below, which details Tax Supported Programs only.

Table 2 - Tax Supported Operating Variance Summary

Variance (\$M) Favourable / (Unfavourable)	2020 9M YTD			2020 Year-End Projection		
	Budget	Actual	Var	Budget	Actual	Var
Forecast COVID-19 Financial Impacts				4,440.6	6,076.7	(1,636.1)
Implemented Mitigation Strategies reflected in Year-End Projection				N/A	(533.8)	533.8
Tax Supported Operating Variance Summary Including Mitigation Savings						
City Operations	1,730.7	1,718.6	12.1	2,458.4	2,450.4	8.0
Agencies	1,410.8	1,687.0	(276.2)	2,166.6	2,829.5	(662.9)
Corporate Accounts	(425.5)	(255.5)	(170.0)	(200.6)	98.9	(299.5)
Total Variance	2,716.0	3,150.2	(434.2)	4,424.5	5,378.9	(954.4)
Toronto Building	(11.0)	(17.2)	6.2	(16.1)	(45.3)	29.2
Total Variance- Excluding Toronto Building	2,727.0	3,167.4	(440.3)	4,440.6	5,424.2	(983.6)
Safe Restart Funding – Transit Operations					404.1	404.1
Safe Restart Funding – Municipal Operations					145.7	145.7
Safe Restart Funding - Social Services Relief Fund (Reflected in City Operations above as part of SSHA's Year-End Projection)					\$118.7 million in Funding Reflected in City Operations	
Adjusted Variance				4,440.6	4,874.4	(433.8)
Percent of Gross Budget			-5.8 Percent			-3.7 Percent

#### Year-to-Date and Year-End Spending Results:

As noted in Table 2 above, for the nine months ended September 30, 2020 Tax Supported Operations experienced an unfavourable net variance of \$440.3 million or 5.8 percent of planned expenditures. This is mainly driven by COVID-19 related cost and revenue impacts experienced beginning from mid-March onwards. The impact on the year-to-date results are reflected in the following areas:

- Toronto Transit Commission - Conventional Service (\$272.9 million unfavourable) primarily due to significant loss of ridership revenue from the impact of COVID-19. Ridership losses peaked at 86 percent below budget in late April and are currently projected to be 55 percent below budget through the fall. This was partially offset by the implementation of cost containment strategies and matching service capacity to demand.
- Shelter Support and Housing Administration (\$22.7 million unfavourable) primarily due to unplanned COVID-19 related expenditures related to new physical distancing measures implemented in the City's shelter system offset by Safe Restart funding; as well as underachieved revenues in Hostels and the Social Housing Service.
- Transportation Services (\$14.7 million unfavourable) due to lower capital recoveries, right-of-way permit & inspection fees; utility cut revenue linked to COVID-19 related contract delays.

For year-end, the City is projecting \$1.636 billion in COVID-19 related financial impacts, reduced by \$533.8 million in savings and offsets (\$499.7 million in mitigation strategies/cost avoidance and \$34.1 million in offsets from budget variance) and \$668.5 million in phase 1 Safe Restart funding for a net unfavourable variance of \$433.8 million or 3.7 percent of the

2020 Gross Operating Budget, adjusted for Toronto Building and excluding impacts to Rate supported programs and Toronto Community Housing Corporation impacts.

- The unfavourable variance is primarily driven by COVID-19 financial impacts, resulting in increased emergency social support costs such as Shelter, Seniors Services and Long Term Care, as well as lost revenue in City Services such as TTC, Zoo, Exhibition Place, and Corporate revenues such as Municipal Land Transfer Tax and Municipal Accommodation Tax.

As noted, the projected year-end pressure resulting from COVID-19 related financial impacts has been lessened through a series of mitigation strategies and other offsets, these include:

\$499.7 million in projected savings generated through mitigation strategies and cost avoidance as detailed below:

- Workforce restraints including redeployment of staff to critical and essential service areas; implementing emergency and seasonal / part-time staff layoffs; the implementation of a hiring slowdown; and savings generated from labour negotiations.
- Spending restraints such as reducing discretionary spending; and reviewing all services for criticality (prioritize critical, essential and priority services).
- Cost avoidance arising from expenditure management and tracking and forecasting COVID-19 related savings.

An additional \$34.1 million in offsets are available from budget variance experienced within MLTT revenues from January 1 to March 31 that will be used to reduce COVID-19 related MLTT financial impacts.

Based on these initiatives, the City has achieved \$415.5 million in offsets within its Tax-Supported programs as of October 25, 2020 and expects to generate a total of \$533.8 million in offset by year-end.

#### Rate Supported Programs:

Rate Supported Programs reported a favourable year-to-date variance of \$0.8 million. The favourable variance is attributed to lower than budgeted expenditures from Toronto Water and Solid Waste Management Services which is mostly offset from lower than planned revenue in Toronto Parking Authority. At year-end, an unfavourable projected variance is anticipated to be \$42.1 million, again primarily driven by significantly lower revenues from Toronto Parking Authority which is reflected in the City-wide COVID-19 financial impacts that are projected to total \$514.1 million in 2020, when adjusting for savings and initial Safe Restart funding.

Rate Supported Programs are funded entirely by the user fees that are used to pay for the services provided and the infrastructure to deliver them. Solid Waste Management Services and Toronto Water's respective year-end surpluses, if any, must be transferred to the Wastewater and Water Stabilization Reserves and Waste Management Reserve Fund, respectively, to finance capital investments and ongoing capital repairs and maintenance.

Table 2 - Rate Supported Operating Variance Summary

Variance (\$M) Favourable / (Unfavourable)	2020 9M YTD			2020 Year-End Projection		
	Budget	Actual	Var	Budget	Actual	Var

Solid Waste Management Services	(14.6)	(29.6)	15.1	0.0	(3.8)	3.8
Toronto Parking Authority	(53.6)	(7.5)	(46.1)	(70.1)	(3.3)	(66.8)
Toronto Water	(11.2)	(43.0)	31.8	0.0	(21.0)	21.0
Total Variance	(79.4)	(80.1)	0.8	(70.1)	(28.0)	(42.1)

#### Additional COVID-19 Related Impacts:

In addition to COVID-19 impacts to the City's Tax and Rate supported programs that are reflected in City variance report, further impacts have been experienced with the Toronto Community Housing Corporation (TCHC).

City and TCHC finance staff have been working collaboratively to track and project COVID-19 financial impacts. The TCHC is estimating that impacts will total \$13.5 million by year-end.

In total, it is projected that the City will experience \$1.716 billion in COVID-19 financial impacts (\$1.636 billion – Tax Supported Programs; \$66.8 million – Toronto Parking Authority; and \$13.5 million – Toronto Community Housing Corporation) prior to savings and offsets that collectively total \$533.8 million; and phase 1 Safe Restart Funding of \$668.5, reducing the year-end shortfall to a projected \$514.1 million.

#### Safe Restart Agreement:

On July 27, 2020 the Ontario government in partnership with the federal government announced \$4 billion in financial support for Ontario's 444 municipalities as part of the Safe Restart Agreement and on August 12, 2020 the City of Toronto was provided with initial phase funding allocations under the agreement totalling \$668.5 million as follows:

- Municipal Transit Funding Phase 1 - \$404.1 million allocated to Toronto proportionately based on ridership.
- Social Services Relief Fund Phase 2 - \$118.7 million allocated to Toronto in addition to the \$39 million previously received as part of Phase 1 funding.
- Municipal Operating Funding Phase 1 - \$145.7 million allocated to Toronto proportionately based on households.

\$668.5 million in new funding will be applied to projected 2020 year-end funding shortfall.

- It is estimated that the remaining 2020 funding shortfall for the City following phase 1 Safe Restart funding will be \$514.1 million.
- Future phase funding of up to \$2.129 billion will be allocated to municipalities by the Province on a needs basis between municipal transit needs (\$1.334 billion), municipal operating needs (\$695.0 million) and Public Health (\$100.0 million).
- Needs based applications have/will be submitted under the Safe Restart Program to obtain further funding to offset remaining COVID-19 financial impacts within Transit Operations, Public Health and Municipal Operations.

## Background Information

(November 10, 2020) Report and Appendices A to E from the Chief Financial Officer and Treasurer on Operating Variance Report for the Nine Months Ended September 30, 2020 (<http://www.toronto.ca/legdocs/mmis/2020/bu/bgrd/backgroundfile-158404.pdf>)