TORONTO

REPORT FOR ACTION

Adjustments to Capital Budget, Carry Forward Funding and Future Year Commitments

Date: April 14, 2020
To: Budget Committee and Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

During the 2021 tax and rate supported budget processes, City Council approved a combined $879.6 million of previously approved unspent capital projects to be carried forward to 2021-2025. The approved carry forward amount was based on the initial estimate prior to 2020 year-end closing. With the 2021 fiscal year closed in February 2021, City Programs and Agencies have finalized the 2020 actual project spending as well as the total carry forward request. As a result, the purpose of this report is to seek Council's approval for an additional $210.5 million of tax and rate supported carry-forward funding, of which $183.2 million to be carried to 2021 and $27.2 million to 2022 to 2025, to enable staff to complete 2020 and prior year approved capital projects.

With the additional carry forward request, the total capital carry forward funding will be $1.090 billion, and the total Council approved 2021 tax and rate supported Capital Budget including previously approved carry forward amount will be $5.319 billion.

This report also brings forward in-year Capital Budget adjustment requests for 2020 and future years. Programs and Agencies were not able to bring forward these adjustment requests earlier due to changes in scheduled committee meeting dates as a result of the COVID-19 emergency. Approval of these requests are needed as City Council's authority is required to continue with the project delivery.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve additional carry forward funding of $210.5 million from unspent capital projects funding as detailed in Appendix 1a and 1b, in order to continue work on previously approved capital projects in 2021 and beyond, and that the 2021 Approved Capital Budget for respective City Programs and Agencies be adjusted accordingly.

2. Council approve in-year budget adjustments to the 2020 Approved Capital Budget as detailed in Appendix 2.

FINANCIAL IMPACT

In addition to the carry forward amount previously approved by City Council, an additional $210.5 million carry-forward funding is being recommended in this report.

Of the $210.5 million carry forward funding adjustments recommended in this report, $183.2 million will be added to the 2021 Capital Budget and $27.2 million will be added to 2022-2025 Capital Plan.

The additional carry forward funding will increase the 2021 Approved Tax and Rate supported Capital Budgets from $5.136 billion to $5.319 billion.

DECISION HISTORY

City Council approved $111.6 million of previously approved unspent capital project for Rate Program on December 16, 2020; and $768.0 million for Tax Program on February 18, 2021 to be carried forward to 2021-2025 in order to continue the project delivery.

With the 2020 fiscal year closed, this report is to seek Council's approval for additional carry-forward adjustments based on 2020 final results. As part of the City's financial management and accountability framework, 2020 carry forward funding requests are submitted to Executive Committee and Council for approval to ensure appropriate spending authorities are in place to continue capital work.

COMMENTS

The City's Carry Forward Funding Policy enables City Programs and Agencies to carry forward unspent balances for approved projects that have not been completed.

Due to the timing of the budget planning process, Programs and Agencies were not able to precisely calculate the carry-forward funding needed for the completion of 2020 and prior years' capital projects before approval of the 2021 Capital Budget. With the 2020 fiscal year closed, City Programs and Agencies can now finalize 2020 actual project expenditures and any associated under expenditures of which unspent funding can be carried forward and added to the Council Approved 2021-2030 Capital Budget and Plan to complete previously approved capital projects. It is essential that these adjustments be made to provide necessary cash flow spending authorities to continue capital project delivery.

Recommended Additional Carry Forward Funding Adjustments to 2021 Approved Capital Budget

In accordance with the City's Carry Forward Policy, approval is being sought to carry forward funding for uncompleted 2020 projects. Table 1 below summarizes the recommended funding to be carried forward and added to the 2021-2030 Capital Budget and Plan:

Table 1: Total Carry Forward Funding Adjustments

($M)		Council Approved Carry Forward		Incremental Carry Forward		Total Incremental Carry Forward	Adjusted Total Carry Forward	Adjusted Total 2021 Budget
	2021 Budget without Carry Forward	2021	2022-2025	2021	2022-2025			
Tax	2,951	747	21	141	18	159	927	3,840
Rate	1,341	96	15	42	10	52	163	1,479
Total	**4,292**	**843**	**36**	**183**	**27**	**210**	**1,090**	**5,319**
		880		**210**				
		1,090						

Approval of these incremental carry forward funding adjustments will increase the Council approved carry forward funding from $879.6 million to $1.090 billion.

In 2020, as part of strategies initiated to address the funding shortfall caused by the COVID-19 pandemic, the City managed Capital from Current (CFC) funded capital spending, resulting in $263 million in capital underspending. This funding is included in the $1.090 billion total carry forward, enabling the redirection of this funding to the Tax Stabilization Reserve as a COVID funding backstop, as approved by Council during the 2021 Budget process.

Based on these recommended adjustments, the total 2021 Approved Capital Budget will increase from $5.136 billion to $5.319 billion.

For 2020, capital spending activity was slowed due to the uncertainty of the COVID and its impact on the city's financials. Despite the slow-down, the projection at the end of the third quarter is for the 2020 annual capital spend rate to reach 80.7%, which is higher than the 5-year average of 63.3%. The expected higher spending rate is primarily attributed to the change in how capital projects were budgeted for the year. The City will continue to plan the annual capital projects in line with both affordability and achievability, based on the historical actual capacity. The strategy is expected to continuously deliver realistic capital plans and drive more reasonable spending rate in future years. The actual year-end spending rate will be confirmed as part of year end reporting.

Table 2: 2015 - 2020 Capital Budget, Spending Rates and Carry Forwards

($Millions)	Approved Budget $	Spent $ (Actual)	Spent %	CFWD $ (Total)	Carry Forward as a %
2015	4,199	2,868	68.3%	1,136	27.1%
2016	4,746	2,855	60.2%	1,636	34.5%
2017	5,347	3,173	59.3%	1,824	34.1%
2018	5,752	3,594	62.5%	1,909	33.2%
2019	5,655	3,772	66.7%	1,234	21.8%
2020**	4,749	3,831	80.7%	1,090	23.0%
5-Yr Avg. (2015-2019)	**5,140**	**3,253**	**63.3%**	**1,548**	**30.1%**

*** Approved Budget and Actual projected as of Q3 Variance Report*

In-Year Budget Adjustments

City Council approval is required for 2020 in-year budget adjustments detailed in Appendix 2.

It is recommended that Council approve in-year adjustments related to the following:

- Offsetting accelerations and deferrals of project funding to align cash flows with actual spending, without any change to overall funding or project costs;
- Budget adjust to reflect added available project funding and/or reallocation of funding between capital projects;
- Funding adjustments to redirect Capital from Current (CFC) funding to capital projects that experienced underspending in 2020, enabling CFC funds to be redirected as a COVID-19 funding backstop, as approved by Council; and
- Adjustments to Capital Budgets and Plans consistent with Board approved adjustments (i.e. TTC).

Details on in-year adjustments are available in Appendix 2.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1a - Additional Carry Forward Funding by Program
Appendix 1b - Additional Carry Forward Funding by Project
Appendix 2 - 2020 Year-End Adjustment Request