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## 2021 CAPITAL BUDGET BRIEFING NOTE

### Continued COVID-19 Support Funding from Federal/Provincial Governments – Potential Impacts of Inadequate 2021 Funding Support

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#### Issue/Background:

At its meeting of January 22, 2021, the City Budget Committee requested that the City Manager and the Chief Financial Officer and Treasurer prepare a briefing note on the City's contingency plan in the event that the remaining \$856 million in required COVID-19 relief funding is not received from the Provincial and/or Federal governments, including the impact on each division and agency's capital budgets.

- Based on recent funding announcements and changes in 2020 projections detailed in the body of the briefing note, City staff now estimate a reduced funding gap of \$649 million.

#### Key Points:

##### *COVID-19 Financial Impacts*

The City has experienced significant and unprecedented financial impacts, both in the form of added costs and revenue losses as a direct result of the COVID-19 pandemic.

In 2020, as reported in the September 30 Variance Report, it has been anticipated that COVID-19 financial impacts on the City of Toronto Operating Budget will total more than \$1.7 billion.

2020 financial impacts have been addressed through a combination of nearly \$1.2 billion in funding support from the government of Canada and province of Ontario through the Safe Restart Agreement (SRA) and over \$500 million in City-led mitigation strategies that included workforce and spending restraints.

COVID-19 related financial impacts experienced in 2020 are expected to continue into 2021 and future years. It is projected that COVID-19 related financial impacts will total \$1.596 billion in 2021 across City Programs and Agencies.

##### *Continued COVID-19 Support Funding from Federal/Provincial Governments*

The 2021 Operating Budget includes \$1.596 billion in anticipated COVID-19 related costs and revenue losses.

The Budget also includes \$740 million in secured COVID-19 support funding from the federal and provincial governments, predominantly attributed to the portion of SRA funding announced in December 2020 that is available for use in the City's 2021 Operating Budget.

This results in a funding gap of \$856 million, which is expected to be addressed through continued COVID-19 funding support from the federal and provincial governments.

Support from the government of Canada and province of Ontario continues to be critical to offset COVID impacts on the City's operating budget. In the event that adequate funding is not forthcoming in 2021, the Capital Budget will be materially impacted through a combination of adjustments to the 2021 Capital Budget through a reduction in planned Capital from Current (CFC) funding; and withdrawals from City Reserves, utilizing reserve funds otherwise available for the City's Capital Program.

### ***Implications of Reduced Capital Funding***

It is expected that the City will continue to receive support from the government of Canada and province of Ontario without the need to impact the 2021 Capital Budget or City reserves otherwise available for the City's Capital Program.

The Capital Budget both addresses City infrastructure needs, including the expected growth in our State-of-Good Repair backlog but also supports the economy through significant investments and job growth.

As detailed in budget briefing note #13 entitled, ***Potential Impact of Reduced City Capital Budget on Employment***, \$856 million in capital investments by the City could be expected to support between 4,000 to 11,500 person-year jobs, or at a mid-range of around 7,500 jobs for one year.

### ***Anticipated Increases in Secured 2021 Funding***

As previously noted, the 2021 Operating Budget includes \$740 million in COVID-19 support funding, resulting in a remaining funding gap of \$856 million.

Since the launch of the 2021 Budget on January 14, 2021 further funding support has been committed to the City through the following:

- **SRA Transit Funding** – Confirmation was received from the Ministry of Transportation on January 26, 2021, stating that the City will be in receipt of an added \$33 million in SRA Phase 1 transit funding for COVID-19 financial impacts experienced by the TTC in 2020. This enables a greater portion of SRA Phase 2 funding to be applied to 2021 COVID impacts, increasing secured 2021 funding by \$33 million.
- **Public Health Costs** – the City was also provided with a letter from the Ministry of Health on January 13, 2021 that notes the expectation of public health units to take all necessary measures to continue to respond to COVID-19 in their catchment area; and assurance related to the reimbursement of COVID-19 extraordinary costs incurred in 2021.
  - Included in the original \$856 million funding gap is \$59 million in COVID-19 related costs for Toronto Public Health. Based on the correspondence noted above, City staff are

now confident to increase secured 2021 funding by a further \$59 million, reflecting Public Health cost reimbursement.

Lastly, a preliminary review of final year-end 2020 COVID-19 costs and revenue losses has been completed based on the final submissions of 2020 weekly impacts from all City Programs and Agencies.

- Following the review of this information it is expected that a further \$115 million in SRA funding originally expected to offset 2020 COVID impacts as reported in the September 30 Variance Report, will now be available for use in 2021.
  - The change in 2020 projections compared to the September 30 Variance Report is primarily driven by positive results in MLTT revenue experienced in Q4 2020. As of September 30, MLTT revenues were \$58.3 million below budget, which has since been fully offset through the actual MLTT experience from October - December.
  - Further adjustments are expected as a result of refined 2020 cost estimates and other 2020 funding commitments in addition to SRA funding within City programs such as Paramedic Services and SSHA.
- It is important to note that the City's year-end financial reporting process is currently underway and the above estimates are preliminary only. Final 2020 impacts cannot be confirmed until completion of the year-end process, including the audited review of financial statements.

The changes noted above, specifically the recent transit and public health funding commitments reinforce the City's expectations that continued COVID-19 support funding from the federal and provincial governments will be received in 2021 to fully offset COVID-19 financial impacts.

- Based on the changes noted above, City staff now consider \$947 million in 2021 funding to be secured, with the **funding gap now reduced to \$649 million.**

### ***2021 Backstop for Remaining Funding Gap of \$649 million***

The 2021 Operating Budget is balanced based on the expectation of continued COVID-19 support funding from the government of Canada and province of Ontario.

In the event that continued COVID-19 funding is not forthcoming or adequate to fully address the financial impacts arising from the pandemic, the City's Capital Program will be materially impacted through an equal part capital reduction and reserve draw, as neither the CFC nor the reserve draw on its own is sufficient to fill the gap.

- **Reserve Draw** – A draw of up to \$324.3 million from the Tax Stabilization Reserve will be required.
  - This draw would leverage funds specifically allocated to the reserve through 2020 COVID related measures such as the allocation of 2019 surplus and 2020 capital underspending; and would leave the City with only \$270 million in remaining funds specifically available for any unanticipated 2021 COVID pressures or ongoing COVID impacts in future years.

- A reserve draw reflects one-time funding only that is not sufficient to address ongoing COVID impacts in future years. Furthermore, in a pre-pandemic environment these funds set aside through 2020 measures (i.e. 2019 Surplus) would have been reinvested in the City's capital program to address capital infrastructure needs.
- To ensure the City can maintain a balanced budget without further COVID-19 support funding, these funds cannot be used for any other purpose at this time. These funds can ultimately be re-directed to current or future-year capital plans, provided the City is successful in securing permanent funding support for 2021 and future year COVID related financial pressures from the government of Canada and province of Ontario.
- **Capital Reduction** – A reduction of up to \$324.4 million or 9% from the 2021 Recommended Capital Budget would also be required.
  - The potential reduction to the Capital Budget would be proportionately allocated across all City Programs and Agencies based on the level of Debt/CFC or PGT funding within the 2021 Recommended Capital Budget.
  - The potential reduction amount by Program and Agency was determined through the following steps:
    1. Identify all funding in the 2021 Capital Budget totalling \$3.697 billion;
    2. Consider only \$1.495 billion in budgeted Debt/CFC and PGT funding within the 2021 Capital Budget, excluding Programs such as Fleet Services that do not include Debt/CFC or PGT funding;
    3. Exclude \$160 million in Debt/CFC funds carried forward from 2020 into 2021 required to complete capital work;
    4. Exclude \$327 million in applicable funding for existing commitments that restrict our ability to implement a capital reduction (i.e. \$160 million for TCHC building repair based on co-investment agreement); and
    5. Proportionately apply a \$324.4 million reduction towards the remaining \$1.007 billion in Debt/CFC and PGT funding, while applying a 25% cap on the total reduction to any individual Program or Agencies 2021 Capital Budget (excluding carry forward funding).
  - The table below details the potential 2021 Capital Budget reduction allocation by Program/Agency:

### Potential 2021 Capital Budget Reduction by Program/Agency

Program \$Millions	2021 Capital Budget (Excl C/Fwd)	2021 Debt/CFC and PGT Funding*	Capital Backstop	% of Capital Budget
Children's Services	7.6	1.6	(0.5)	7%
Economic Development and Culture	14.6	10.9	(3.6)	25%
Parks, Forestry & Recreation	169.0	87.1	(29.3)	17%
Toronto Employment & Social Services	4.0	3.9	(1.0)	25%
Toronto Paramedic Services	5.1	3.6	(1.2)	23%
<b>Community and Social Services Total</b>	<b>200.4</b>	<b>107.0</b>	<b>(35.7)</b>	<b>18%</b>
City Planning	4.7	3.0	(1.0)	22%
Fire Services	11.1	3.2	(1.1)	10%
Transit Expansion Office	18.7	17.8	(4.6)	25%
Transportation Services	376.4	322.4	(93.0)	25%
<b>Infrastructure and Development Services Total</b>	<b>410.8</b>	<b>346.4</b>	<b>(99.7)</b>	<b>24%</b>
Corporate Real Estate Management	197.2	170.9	(48.7)	25%
Chief Information Security Office	4.0	4.0	(1.0)	25%
Technology Services	50.4	44.0	(12.5)	25%
<b>Corporate Services Total</b>	<b>251.7</b>	<b>218.9</b>	<b>(62.2)</b>	<b>25%</b>
Office of the CFO and Treasurer	0.2	1.7	(0.04)	20%
Office of the Controller	71.6	72.9	(14.3)	20%
<b>Finance and Treasury Services Total</b>	<b>71.8</b>	<b>74.6</b>	<b>(14.4)</b>	<b>20%</b>
Corporate Initiatives	0.4	0.4	(0.1)	25%
<b>Other City Services Total</b>	<b>0.4</b>	<b>0.4</b>	<b>(0.1)</b>	<b>25%</b>
<b>Total - City Operations</b>	<b>935.1</b>	<b>747.3</b>	<b>(212.0)</b>	<b>23%</b>
Exhibition Place	5.2	11.6	(1.0)	20%
TO Live	15.0	25.1	(3.0)	20%
Toronto Police Service	34.9	17.7	(5.9)	17%
Toronto Public Library	35.5	33.5	(8.8)	25%
Toronto Zoo	10.5	11.7	(2.1)	20%
Toronto Transit Commission	1,132.5	160.6	(91.6)	8%
<b>Agencies Total</b>	<b>1,233.6</b>	<b>260.1</b>	<b>(112.4)</b>	<b>9%</b>
<b>2021 Capital Budget (Portion Only)</b>				
<b>Absent Carry Forward Funding and Excluded Programs</b>	<b>2,168.6</b>	<b>1,007.4</b>	<b>(324.4)</b>	<b>15%</b>
<b>Total 2021 Capital Budget</b>				
<b>Includes C/Fwds and Excluded Programs</b>	<b>3,697.0</b>	<b>1,494.5</b>	<b>(324.4)</b>	<b>9%</b>

\*PGT funding is only reflected within the TTC Budget

- A reduction of up to \$324.4 million from the 2021 Capital Budget would be required in the event that continued COVID-19 funding from the federal and provincial governments is not forthcoming or adequate to fully address the financial impacts arising from the pandemic.
- As detailed in the table above, if no further COVID support funding were to be received in 2021, the 2021 Capital Budget would need to be reduced by 9%, with an average reduction of 15% applied to impacted Programs and Agencies.

### *Potential Capital Project Reductions - Considerations*

Programs and Agencies considered projects that would be impacted from a potential \$324 million 2021 capital reduction, with a focus on:

- 2021 projects that are funded from Debt/CFC or PGT
  - The 2021 Capital Budget includes \$339 million in CFC funding, reflecting capital infrastructure investments funded directly from the 2021 Operating Budget
  - Capital projects are approved with Debt/CFC funding, with CFC allocation determined during budget upload based on criteria that considers asset life, asset type and spending risk. Total Debt/CFC reductions is limited to the level of 2021 CFC funding.
  - Projects without Debt/CFC or PGT funding were excluded for consideration
- Projects/project funding within the 2021 Capital Budget (i.e. only project funding planned in the year 2021)
  - Focus must be on projects budgeted in 2021 with funding that is both available in 2021 to offset COVID-19 impacts and eligible for use against operating expenses.
  - Future year projects or funding that is planned in 2022 or future years cannot be leveraged for the potential capital reduction as those funds would not be available for use in 2021.
    - Furthermore, the acceleration of future year projects into 2021 as a potential option for capital reductions is not viable as capital funding to potentially offset 2021 COVID impacts is restricted to CFC or PGT funding, both of which cannot be accelerated as they are dependent on either annual Provincial contributions (PGT) or future year property tax revenue (CFC).
    - As discussed at Budget Committee, City staff have created added flexibility to accelerate capital funding for capital work that is expected to be completed ahead of schedule however it should be noted that in those circumstances Finance staff evaluate the ability to accelerate funding for individual projects and consider the source and availability of project funding (i.e. are funds available in a Reserve) and in the case of debt funding, can we accelerate while maintaining debt affordability ratios accounting for any known underspending that may be occurring elsewhere in the Capital Budget.
  - For the above reasons we would not be in a position to accelerate any debt funding included in the current 10-year plan and then use those funds as potential offsets in the event that adequate federal and provincial funding is not forthcoming in support of COVID-19 costs in 2021.
- Projects were then evaluated with a focus on continued delivery of Health and Safety and Legislative projects; with added consideration of delivery timeline and any pre-existing commitments.

### ***Potential Capital Project Reductions – Impacted Projects***

In the event that the City received no further COVID-19 funding support from the federal and provincial government the following 2021 capital projects would be impacted:

### *Community and Social Services*

- **Children's Services (\$0.5 million)**
  - SOGR for directly operated child care centres
    - Priority given to infrastructure needs for enhanced health and safety guidelines developed with Province and Toronto Public Health
- **Economic Development and Culture (\$3.6 million)**
  - Information Technology
  - Work at various Museums, Art Centres, Theatres and Heritage Sites including roof work, mechanical components, interiors, etc.
  - Restoration of Public Art
  - Preventative and Urgent Maintenance
  - BIA Projects:
    - Infrastructure Projects - 50/50 and fixed Financing; Mural Projects; Commercial Façade; and Planning Streetscape Masterplans
- **Parks, Forestry and Recreation (\$29.3 million)**
  - Held projects would include Ferries, Facility and Park Rehabilitation, Accessibility projects and Park Plans
  - Further projects impacted would include:
    - Facility Components and Special Facilities;
    - Community Centres, Pools, Arenas, Parking Lots and Tennis Courts;
    - Park Development, Trails and Pathways; and
    - Information Technology
- **Toronto Employment and Social Services (\$1.0 million)**
  - Office Relocation Projects (Bridlewood, Dufferin Mall and Yonge Street)
- **Toronto Paramedic Services (\$1.2 million)**
  - PPE Re-Processing Centre
  - Communication Centre Upgrades to the Next Generation 911 System

### *Infrastructure and Development Services*

- **City Planning (\$1.0 million)**
  - Eglinton Ave (LRT) Avenue Road to Yonge Street – Streetscape work in conjunction with LRT construction
  - Alexander the Great Parkette – Parkette improvements in partnership with BIA
  - John Street Revitalization
- **Toronto Fire Services (\$1.1 million)**
  - Fire Prevention Technology Integration

- Training Simulator and Facilities Rehab
- Replacement of HUSAR Equipment
- **Transit Expansion Office (\$4.6 million)**
  - Eglinton W LRT/Prelim SmartTrack
- **Transportation Services (\$93.0 million)**
  - Road Rehabilitation (Local and Major)
  - Bridges
  - Sidewalks
  - Laneways
    - Approximately 50% of 2021 SOGR program already committed
  - F.G. Gardiner
    - 2021 budget of \$80.4 million with \$50.1 million committed and being delivered
    - Remaining 2021 uncommitted funding of \$30.3 million required for SOGR/Health and Safety needs associated with design and construction for Gardiner EAST (WT – East of DVP) and predesign assignment for Contract 2 (Dufferin to Strachan)

#### *Corporate Services*

- **Corporate Real Estate Management (\$48.7 million)**
  - Mechanical and Electrical
  - Structural / Buildings
  - Renovations
  - Sitework
    - Reduction in address SOGR work at City facilities – across emergency services facilities, yards and Civic Centres
    - Focus strictly on health and safety and legislative projects, or projects needed to ensure business continuity
- **Chief Information Security Office (\$1.0 million)**
  - MSSP
  - Digital Support Services
  - Forensics
  - Infrastructure – Vulnerability Scanning
- **Technology Services (\$12.5 million)**
  - Modernization – Supporting Remote Work, Disaster Recovery and Business Continuity
  - Information Management – Managing data centralization
  - Enterprise Work Management Solution – Managing assets effectively for 4 Divisions – PF&R, Solid Waste, Transportation and Toronto Water



- 311 Telephony Upgrade – Maintaining Support

#### *Finance & Treasury Services*

- **Office of the CFO and Treasurer (\$0.040 million)**
  - Integrated Asset Planning Management
- **Office of the Controller (\$14.3 million)**
  - Financial System Transformation

#### *Other City Services*

- **Corporate Initiatives (\$0.1 million)**
  - Ontario Place Development Plans
  - Rail Deck Park

#### *City Agencies*

- **Exhibition Place (\$1.0 million)**
  - Beanfield Centre and other buildings
  - Parks, Parking Lots and Roads
- **TO Live (\$3.0 million)**
  - AODA and SOGR projects
    - Includes theatre systems & equipment replacement, health and safety improvement at the 3 city-owned theatres
- **Toronto Police Service (\$5.9 million)**
  - SOGR Program
  - Deferral of 41 Division project
  - Mobile Command Centre
  - Facility and Process Improvements
- **Toronto Public Library (\$8.8 million)**
  - Multi Branch Renovation Program
  - Toronto Reference Library Renovation
  - Technology Asset Management Program (TAMP)
  - Service Modernization and Transformation
- **Toronto Zoo (\$2.1 million)**
  - Buildings and Exhibit Refurbishment
  - Grounds and Visitor Improvements
  - IT Information Systems

- **Toronto Transit Commission (\$91.6 million)**
  - Subway and Surface Track
  - Traction Power;
  - Electrical; Communication and Signal Systems
  - Bridges, Tunnels and other Building Structures
  - Service Planning
  - IT Systems and Infrastructure
    - TTC reviewed all 2021 capital projects ensuring continued funding for all previously approved projects in flight with contractual commitments; health & safety; legislated; and key priorities.

***Potential Capital Project Reductions - Timing***

- Funding commitments from the government of Canada and province of Ontario are required to ensure there are no impact on the City's 2021 Capital Budget.
- Any delays in receiving these commitments into Q2 of 2021 will impact the City's ability to award and deliver seasonal capital projects.

***Final Note***

- The 2021 Operating Budget expects continued COVID-19 support funding from the government of Canada and province of Ontario.
- Recent funding commitments towards transit and public health with the 2021 COVID-19 funding gap now reduced from \$856 million to \$649 million.
- The changes noted above, specifically the recent transit and public health funding commitments reinforce the City's expectations that continued COVID-19 support funding from the federal and provincial governments will be received in 2021 to fully offset COVID-19 financial impacts.
- In the event that continued federal and provincial COVID-19 funding is not adequate to fully address the financial impacts arising from the pandemic in 2021, the City's Capital Program will be materially impacted through a reduced 2021 Capital Budget and a draw of reserve funds that would have otherwise been reinvested towards capital needs.
- A reduction to capital funding will result in further increases to the City's State-of-Good Repair backlog but will also have significant economic impacts through a reduction in capital investments and associated job growth.
- The City must also be mindful of anticipated COVID-19 related financial impacts into 2022 and future years and the need to retain sufficient reserve balances to be in a position to address both unanticipated and prolonged financial impacts.

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