
REPORT TITLE: **2020 Triannual Financial Performance Report – April 30, 2020**

FROM: Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That the funding source for School Bike Racks Capital Project (194105) in the amount of \$300,000 be changed from Federal Gas Tax (R0025) to Roads Reserve (R0210).

REPORT HIGHLIGHTS

Summary

- The Region of Peel's combined forecasted 2020 year-end operating financial position for Tax and Utility services will be an overall deficit that is just outside of the budget target; Capital operations are progressing as planned with DC capital projects being reviewed and prioritized with a goal to slow spending.

Current Operations

- Regional Council approved the 2020 Operating Budget of \$2.6 billion to provide funding for the Region to continue delivering services and meet the service needs of the residents and the service demands of a growing community.
- An overall operating deficit of \$44.7 million is projected; \$42.4 million for Regionally Controlled programs and \$2.3 million for External Agencies.
- Largely due to the impact of COVID-19, Regionally Controlled Tax Supported Services are facing a \$28.26 million deficit at year end, and Utility Rate Services are facing a deficit of \$14.15 million at year end.
- At the time of writing this report the projected impact of COVID-19 is \$37.4 million unfavourable, excluding External Agencies.
- In addition to the impacts of COVID-19, the projected impact from non-COVID-19 related drivers is \$5.1 million unfavourable.
- The projected deficit reflects \$27.7 million of total costs avoided in Regionally Controlled Tax (\$23.6 million) and Utility services (\$4.1 million) which have helped to mitigate the overall net impact. Staff will continue to look for opportunities to reduce expenditures to mitigate the deficit.
- Combined Tax and Utility Rate Supported Services are forecasted to end the year with a variance of 2.8 per cent, within the budget accuracy target of plus or minus three per cent as at April 30, 2020.

Capital Operations

- The 2020 Capital Program began with an opening balance of \$4.2 billion (1,540 projects) consisting of the approved 2020 Capital Budget and Capital Work in Progress from prior years; the total capital program has an ending balance of \$4 billion as at April 30, 2020.
- Ninety-four per cent of the 2020 Regionally Controlled capital work progressed on schedule which is within the past five years' progress range for the same triannual period.

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- The top 25 largest capital projects, by remaining gross budget, make up 45 per cent of the remaining budget of active projects as at April 30, 2020 for Regionally Controlled programs.
- Capital work completed for Regionally Controlled programs and External Agencies as at April 30, 2020 totaled approximately \$137 million which was largely driven by Utility Rate supported capital project spending.
- To minimize the risks to overall cash flow and financial flexibility caused by the recession, development charge (DC) funded capital projects are being reviewed for opportunities to align to the lower forecasted DC revenue.
- Request to change the financing source for the School Bike Racks Capital Project (19-4105) in the amount of \$300,000 as it was subsequently determined to be ineligible for Federal Gas Tax funding.

DISCUSSION

1. Background

The Budget Policy requires that staff report the status of operating and capital services at a minimum of twice annually to manage financial performance to ensure the long term financial sustainability of Regional services. This report provides the forecasted year-end financial position of Operating Budget and Capital Operations based on the information and financial results at April 30, 2020.

In December 2019, Regional Council approved \$3.7 billion through the 2020 Budget, including \$2.6 billion in operating funding for Regional services and a \$1.1 billion capital investment in Peel's infrastructure.

The Region of Peel's (Region) first triannual of 2020 has been unprecedented. The COVID-19 pandemic has triggered the start of an economic recession. The Region, similar to all municipalities, is facing significant financial impacts due to COVID-19 with its residents and businesses facing income uncertainty. The impact on year-end financial results will depend of the duration and severity of the pandemic.

a) 2020 Operating Budget

The approved 2020 Operating Budget of \$2.6 billion includes \$0.5 billion to the Region's externally financed agencies: Peel Regional Police, Ontario Provincial Police, and three Conservation Authorities. The budget provides the Region with the funding to support community needs through services under the three areas of focus: Living, Thriving and Leading (services are listed in the Appendix I).

The Region's operating budgets are developed based on the best information available during budget preparation. Budget assumptions are modeled and projected for drivers such as social assistance caseload, 9-1-1 call volumes, winter events and water consumption. Risks are identified and mitigated where reasonably possible including using rate stabilization reserves to address volatility in weather conditions, economic cycles and one-time initiatives or to minimize the impact on the Tax and Utility Rate payers. The risks and assumptions used to develop the 2020 Budget did not reflect the possibility of a global pandemic and its impact on the Region's services and finances.

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b) 2020 Capital Work

The capital work represents a key component of the Region's service delivery. The capital work is used to acquire, improve or maintain land, buildings, roads, water and sewer mains, pumping stations, machinery and equipment, information technology and to conduct studies relating to corporate assets.

The Region's capital plans are developed based on the Region's Growth Master Plans, Regional Official Plan, Corporate Asset Management Plan for state of good repair and other Regional Council directions such as the Waste Reduction and Resource Recovery Strategy and the Housing Master Plan. The Region actively monitors the changes to these plans and adjusts the capital plan where it is required. A significant portion of the Region's capital work consists of large projects that take five to eight years to complete from start to finish.

The 2020 Capital work had an opening balance of \$4.2 billion which consists of projects which are Regionally Controlled (\$4 billion), and those managed by agencies (\$0.2 billion) such as Peel Regional Police (PRP) and by Conservation Authorities. This includes \$1.1 billion of new capital work approved in the 2020 capital budget, a decrease of \$51 million in capital budget changes during 2020 (approved through Council reports or by Council delegated authority), and the remaining capital work previously approved by Council in prior years of \$3.2 billion.

As at April 30, 2020, the capital work had 1,488 active capital projects with a gross remaining budget of \$4 billion (\$3.9 billion for Regionally Controlled) after capital spending of \$0.1 billion.

2. Operating Results

The Region's operating performance includes both Tax Supported Services and Utility Rate Supported Services. Appendix II provides a summary of the projected year-end position by service.

a) Tax Supported Services

As outlined in Table 1 below, Tax Supported Services are forecasting a deficit of \$30.6 million by year-end, representing a variance of 2.7 per cent of the Tax Supported total net budget, which is within Peel's budget accuracy target of plus or minus 3 per cent.

Regionally Controlled Tax Supported Services are forecasting a \$28.3 million deficit largely driven by the COVID-19 pandemic. Regionally Financed External Agencies are forecasting a \$2.3 million deficit primarily driven by the impact of COVID-19 on Peel Regional Police.

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Table 1: Summary of the Projected Variances for Tax Supported Services

\$ Millions	Net Expenditure Budget	Year-end Projection	Projected Surplus/ (Deficit)	% Variance to Net Budget
Regionally Controlled Tax Services	628.4	656.7	(28.3)	(4.5%)
Regionally Financed External Agencies	506.6	508.9	(2.3)	(0.5%)
Total	1,135.0	1,165.6	(30.6)	(2.7%)

As mentioned earlier, the Region's budgets are developed based on the best information available at the time. Projected financial variances are typically driven by changes in service demand, economy and other external factors. However, for 2020, the drivers of the budget variance can be categorized into two main types; COVID-19 related drivers and non-COVID-19 related drivers. The following are key drivers of the forecasted budget variances for Regionally Controlled Tax Services based on the information available up to April 30, 2020.

i) Impact of COVID-19 related drivers

Over the past four months, the COVID-19 pandemic has had a significant impact on the broader economy and on the finances of all municipalities. Requirements for self-isolation and physical distancing as well as temporary closures of non-essential services have contributed to the end of the longest economic expansion in history and likely triggered the start of a recession. The duration and severity of the impact on the economy is unknown at this time and will continue to evolve.

Similar to all major municipalities, the Region of Peel is also forecasting a significant operating deficit for 2020. However, unlike the local municipalities whose deficits are being driven by lower user fees (less Transit use and Parks & Recreation closures), Peel's deficit is largely driven by the increased costs required to support the COVID-19 response as Peel's service portfolio includes Long Term Care, Paramedic Services, Public Health, Child Care, Housing Support and Homelessness.

As presented to Council through the May 14 and June 11 updates on the financial impact of COVID-19, the impacts can be divided into four categories shown in Table 2 below; Increased Costs, Decreased Revenue, Costs Avoided and External Funding.

Table 2: Summary of the Financial Impact of COVID-19

	Increased Costs	Decreased Revenue	Costs Avoided	External Funding	Total Net Impact
Tax Supported	(\$51.9M)	(\$8.0M)	\$23.6M	\$13.1M	(\$23.2M)
Utility Rate Supported	-	(\$18.3M)	\$4.1M	-	(\$14.2M)
Total	(\$51.9M)	(\$26.3M)	\$27.7M	\$13.1M	(\$37.4M)

Increased Costs – (\$51.9 million)

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The forecasted increased costs of \$51.9 million are directly related to COVID-19 response and have assumed that services will begin to transition back to normal state starting September 1, 2020. These costs will continue to evolve and change as information is updated. Appendix III provides the complete list of the forecasted incremental costs incurred due to COVID-19. Below are key highlights of increased costs.

- (\$11.8M) in **Housing Support** for additional costs largely for the establishment of isolation and recovery centres for Peel's vulnerable population as well as providing financial support to community agencies
- (\$8.8M) in **Long Term Care** for prevention and cleaning costs as well as additional staffing to back-fill those on self-isolation and quarantine
- Up to (\$7.0M) in **Housing Support** for additional subsidies required due to lower rents received by the housing providers as outlined in the June 25th report from the Commissioner of Human Services titled, "COVID-19 Response for Community Housing Providers"
- (\$6.8M) in **Child Care** for additional costs to provide childcare for front line health care workers. There has been no confirmation of funding from the Province for these costs. In addition, Peel had continued to support child care agencies during COVID-19 closures, through an estimated \$11.6 million in provincial subsidies for staffing. The Province has indicated it will not be funding those subsidies and that these costs will need to be funded by Federal and/or Regional funds. At this time no Regional impact is anticipated, but updates will be provided through the Triannual process.
- (\$4.9M) in **Infectious Disease Prevention** for isolation, quarantine and prevention costs.
- (\$4.7M) in **Paramedic Services** for putting infected or high-risk paramedics on quarantine, additional deep cleaning in trucks and loading bays, increased use of protective personal equipment as well as costs for the High Risk Response team who are the first response for COVID calls.
- (\$4.5M) in **Enterprise Programs and Services** for the provision of communications, staffing, analysis, financial guidance and technology support as well as the provision of meals to essential staff.

Decreased Revenue – (\$8.0 million)

The Region has experienced \$9.4 million in decreased revenue which is significantly less than seen in other municipalities. This is largely due to the fact that the Region does not have a significant amount of revenue from user fees such as transit and parks and recreation. Below are the areas where decreased revenues are forecast.

- (\$6.0M) lower various User Fees:
 - (\$3.2M) in **Waste Management** Community Recycling Centres due to Council direction to waive fees;
 - (\$1.6M) **TransHelp** fees due to temporary suspension of fare collection and lower overall revenue due to lower trip demand;
 - (\$0.8M) **Land Use Planning** due to fewer planning applications; and,
 - (\$0.4M) **Adult Day Service** due to temporary cessation of service.
- (\$2.0M) from Deferred Property Tax Collection as directed by Council on March 26, 2020. This impact of the deferral has decreased by \$1.4 million

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from the original estimate due to two primary reasons: property tax dollars have been flowed from the local municipalities earlier than expected and interest rates have decreased.

Appendix IV provides a complete list of the forecasted decreased revenue.

Costs Avoided – \$23.6 million

Overall costs of \$23.6 million have been avoided for Regionally Controlled Tax Supported services and have contributed significantly to reduce the overall financial impact of COVID. The savings have been achieved through a combination of reduced discretionary spending in areas such as staff training, hiring for vacancies, actively pausing low risk activities, under-expenditures in services that are seeing decreased activity such as TransHelp and under-expenditures in programs that are being paused such as those in Employment Support and Adult Day Service.

Staff are continuing to identify opportunities to manage expenditures to help mitigate the forecasted deficit. Below are highlights of where costs have been avoided.

- \$8.3M **TransHelp** under-expenditure due to 47 per cent lower trip demand.
- \$2.2M savings in **Employment Support** due to suspension of employment programs including the Families First.
- \$2.1M under-expenditure in **Early Growth and Development** from pausing hiring and other activities.
- \$1.7M in **Non-Program** due to lower dental benefits costs as dental offices were not permitted to be open.
- \$1.6M under-expenditure from **Adult Day Services** due to the temporary program closure.
- \$1.5M in **Waste Management** due to under-expenditures driven by the temporary suspension of activities such as school-based activities, audits, promotions and a hiring freeze.
- \$1.3M in **Paramedic Services** due to lower call volumes and the active management of scheduling and operating costs.
- \$1.2M under expenditure in **Chronic Disease Prevention** from pausing hiring and other activities as well as savings in discretionary spending for items such as training and conferences.
- \$1.0M in **Community Investment Program** due to lower activity in Affordable Transit (\$0.4M) and underspending in the Human Trafficking program (\$0.57M).

Appendix V provides a complete list of the forecasted costs avoided.

External Funding for COVID-19 – \$13.1 million

There has been limited funding announced for the programs by the federal and provincial governments. As presented to Council on June 11, \$11.8 million in funding has been provided to Housing Support to address Peel's vulnerable population through the establishment of isolation and quarantine centres and the provision of financial support to community agencies. In addition to the federal and provincial funding, \$98 thousand was granted by the Canadian Medical

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Association Foundation to the Community Response Fund to support Peel's vulnerable population.

In Long Term Care, a total of \$1.2 million has been provided to help offset some of the costs related to COVID-19 including personal protective equipment, cleaning and staffing.

In April, Peel Regional Paramedic Services submitted costs incurred due to COVID as requested by the Ministry of Health. The Ministry of Health has communicated that it will only consider eligible costs which includes expenses such as Personal Protective Equipment, cleaning and enhanced community paramedicine initiatives but does not include the costs of quarantining and isolation. \$77 million of funding has been identified for allocation by the Province. However, this level of funding is not expected to be able to cover all COVID related costs.

Peel Paramedics, Long Term Care and Public Health have been approved to be part of the Province's pandemic pay initiative. The initiative will temporarily increase staff pay by \$4 per hour and will be fully funded by the Province. Staff are currently analyzing the criteria and the estimated costs.

Appendix VI provides additional details of the external funding.

ii) **Non-COVID-19 Service Demand & Operations Variances – (\$5.1 million)**

While the COVID-19 pandemic drove the majority of the variances to budget, there were some additional variances experienced that were not driven by the pandemic. Overall there is a deficit of \$5.1 million resulting from service demand and operations. Below are some of the key variances forecasted for 2020. Appendix VII provides a complete list and additional details.

- (\$2.5M) in **Non-Program** due to increased prescription costs (\$0.5M) and increased WSIB for Paramedic Services and TransHelp (\$2.0M).
- (\$2.4M) in **Paramedic Services** due to the one-year funding lag to address service demand and inflation.

Staff will continue to monitor the budget driver changes and take actions to manage potential risks and look for additional opportunities to reduce expenditures where necessary for the remainder of the 2020 fiscal year. In addition, staff will include necessary adjustments in developing the 2021 Budget. Appendix VII provides additional details of the variances driven by non-COVID reasons.

b) **Utility Rate Supported Services**

The Utility Rate Supported services are forecasting a year-end deficit of \$14.2 million, representing a variance of 3.2 per cent of total budget as outlined in Table 3. The forecasted year-end position is just outside the Region's budget accuracy target of plus or minus three per cent.

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Table 3: Summary of the Projected Variances for Utility Rate Supported Services

\$ Millions	Budget	Year-end Projection	Surplus/ (Deficit)	% Variance to Net Budget
Water/Wastewater Net Expenditures before Billings	445.4	444.2	1.2	0.3%
Peel Direct Billings	405.6	390.2	(15.4)	(3.8%)
Other Recoveries / Surcharges	39.8	39.8	0.0	0.0%
Net Service	0	(14.2)	(14.2)	(3.2%)

As shown in Table 2 above, the forecasted overall deficit of \$14.2 million is driven by decreased revenue of \$18.3 million (lower water consumption as a result of COVID-19 impact on Industrial, Commercial and Institutional (ICI) sectors (\$10.8 million), the delay of the water rate increase as per Council direction (\$4.6 million), lost revenue from waiving penalties and interest and other fees (\$2.9 million)), partially offset by operational savings of \$4.1 million.

2020 Outlook

As noted above, the forecasted 2020 financial results are largely being impacted by the COVID-19 pandemic with some additional variance driven by non-COVID-19 related reasons. The overall variance will be dictated by the duration and severity of the pandemic. Staff will continue to monitor, assess and review the 2020 results to inform the 2021 Budget planning cycle. Budget assumptions such as short-term and long-term COVID-19 impacts, water consumption, waste revenues, as well as service needs in shelters will be updated and Regional Council will be informed through the 2021 budget.

3. Capital Operations

The Region actively monitors the performance of the capital operations by tracking the capital project progress through various stages of project life cycle and analyzing work in progress. Staff review capital performance every triannual period and reports to Regional Council on the status of the capital work in progress including significant variances.

a) 2020 Capital Spending

In the first four months of 2020, capital spending for both Tax and Utility Rate Supported services amounted to \$137 million (\$132 million Regionally Controlled and \$5 million external agencies), with \$47 million spent in Tax Supported Services and \$90 million spent in Utility Rate Supported Services. The \$0.1 billion in capital spending was invested in the Region's major services. Highlights are provided in Appendix VIII.

As presented to Council on June 25, 2020 in the joint report from the Chief Financial Officer and the Commissioner of Public Works, the economic recession is estimated to result in lower development charge (DC) revenue of \$700 million over the period of 2020 to 2024. In order to maintain financial flexibility, development charge funded capital projects are being reviewed on a regular basis to reduce capital spending and to align to the lower projected DC revenue.

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b) The Progress of the Regionally Controlled Capital Program

The progress of Regionally Controlled capital projects, comprising 1,356 out of the total of 1,540 Region of Peel projects, was actively monitored and measured. Of the 2020 opening balance of Regionally Controlled capital work of \$4 billion, 94 per cent of the Regionally Controlled capital program progressed on schedule which is within the past five years' progress range for the same triannual period. Six per cent of capital projects (\$251 million) are either on hold as a result of Regional Council or Management decisions or haven't incurred spending as the projects are at the early stage or have been deferred or delayed due to management review or unforeseen circumstances.

Of the total 1,356 Regionally Controlled capital projects, 40 projects were completed during the first four months of 2020 with \$8 million in unspent funds returned to reserves. The Regionally Controlled Capital Program ended the 1st triannual period of 2020 with a closing balance of \$3.9 billion. Overall, the capital program did not see significant slowing during the first four months of the fiscal year but looking forward, capital work may be delayed due to the pandemic or due to active decisions to slow DC funded capital work.

c) Work in Progress – Top 25 Regionally Controlled Capital Projects

While all capital projects are actively managed, in order to efficiently manage the Regionally Controlled capital service and mitigate the risks effectively, staff also focus on the progress and report to the Council on the 25 largest capital projects based on the remaining gross budget value. In magnitude, the top 25 active capital projects represent about two per cent of the total number of active capital projects but represent 45 per cent of the remaining budget of active regionally controlled capital projects.

By April 30, 2020, 22 of the 25 capital projects are on track. Two of the 22 projects are in the construction stage and the remaining 20 projects are in initiation, procurement and design stages.

Of the remaining three projects, one project is delayed and two are on hold. See below for details:

- **Delayed:** The Mayfield Road-Airport Road to The Gore Road project, as scheduled construction of the Mayfield Road-Airport Road to Coleraine Drive road widening has been impacted by challenges in property acquisition. While originally slated to begin in 2022, construction is anticipated to start in 2023. Staff are currently working to revise the phasing/staging of watermain works, utility relocation and ultimately road widening in consideration of the needs of current property owners.
- **On Hold:** The Downtown Brampton Sanitary Sewer project was setup to coordinate Phase 1 of the Downtown Brampton Project with the City of Brampton which was subsequently put on hold. Currently the program is proceeding with the construction of temporary water and wastewater works and temporary road improvements in the City of Brampton's Downtown core, which sought council's approval on June 25, 2020, in a council report titled "Update on Water and Sanitary Sewer Upgrades in Downtown Brampton, City of Brampton, Ward 1, 3, 4 and 5".
- **On Hold:** The Williams Parkway Sub-Transmission project, as the City of Brampton's road widening of Williams Parkway is under review. Staff expect the City of Brampton will be providing further direction before the end of 2020 which will impact whether the project proceeds as planned or portions or all the work is to be deferred.

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Appendix IX provides the status of the top 25 capital projects with their corresponding gross remaining budget broken down into tax and utility rate services. Analysis of top 25 projects shows:

- The total gross budget of the Top 25 largest projects is \$2.5 billion with a remaining budget of \$1.7 billion; and,
- By end of first triannual period, the cumulative spending of the top 25 capital projects amounted to \$744 million or 30 per cent of the gross budget.

4. Funding Source Change Request

Request to change funding source for School Bike Racks Capital Project (194105) from Federal Gas Tax to Roads Reserve.

In 2019, the School Bike Racks project was approved for \$150,000 and an additional \$150,000 was approved through the 2020 Budget. Staff confirmed with the Association of Municipalities of Ontario that the bike racks were eligible for Federal Gas Tax, and this funding source was submitted in the respective budget years.

As the Region intended to purchase and install the bike racks for both school boards (Peel District School Board and Dufferin-Peel Catholic District School Board), Peel would no longer own these assets. The transfer of ownership was not taken into consideration when staff confirmed whether this project was eligible for Federal Gas Tax. As a result, the Region would not be able to benefit from utilizing Federal Gas Tax funding.

Staff is seeking approval from Council to change the funding source from Federal Gas Tax to internal reserves, specifically the Roads reserve (R0210) in the amount of \$300,000.

CONCLUSION

In summary, the Region of Peel's combined forecasted 2020 year-end operating financial position for Tax and Utility Services are projected to end the year in deficit positions largely driven by the impact of the COVID-19. The forecasted deficit will greatly depend on the severity and duration of the COVID-19 pandemic. Capital operations for both Tax and Utility Services are progressing as planned and are being reviewed to align spending with the lower development charge revenue forecast. The Region will continue to actively monitor operating the impact of COVID-19 and other budget driver changes while continuing to look for opportunities to reduce spending and will take these into consideration in developing the 2021 budget.

The Region will manage its financial resources for service delivery through balancing the three pillars of Financial Sustainability, Financial Vulnerability and Financial Flexibility in accordance with the Long Term Financial Planning Strategy.

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APPENDICES

- Appendix I - 2020 Service Levels
 - Appendix II - 2020 Projected Operating Year-End Position - Tax and Utility Services
 - Appendix III - Increased Costs
 - Appendix IV - Decreased Revenue
 - Appendix V - Costs Avoided
 - Appendix VI - External Funding for COVID-19
 - Appendix VII - Non-COVID-19 Service Demand and Operations
 - Appendix VIII - 2020 Capital Spending (January – April)
 - Appendix IX - Status of Top 25 Capital Projects with Gross Remaining Budget – Regionally Controlled Programs
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Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.



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