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REPORT TITLE: **2020 Capital Performance and Impact on Capital Reserves and Reserve Funds**

FROM: Julie Pittini, Acting Commissioner of Finance and Chief Financial Officer

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## RECOMMENDATION

**That the funding source for the Vehicle Communication Software/Hardware (Capital Project #208920) in the amount of \$53,000 be changed from Federal Gas Tax Funds reserve (R0025) to Soc-TransHelp Vehicle reserve (R1615).**

### REPORT HIGHLIGHTS

- The 2020 Capital Program began with an opening balance of \$4.2 billion (1,555 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 \$3.5 billion as at December 31, 2020.
- Regionally Controlled Programs:
  - 96 per cent of the capital work progressed on schedule which is within the past five years' progress range for the same triannual period.
  - The top 25 largest capital projects, by remaining gross budget, make up 46 per cent of the remaining budget of active projects as at December 31, 2020.
  - Capital work completed in 2020 totaled \$0.6 billion which was largely driven by Utility Rate supported capital project spending.
- Staff recommend that the funding source of \$53,000 for the Vehicle Communication Software/Hardware capital project be changed from Federal Gas Tax Funds reserve to Soc-TransHelp Vehicle reserve.

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## DISCUSSION

### 1. Overview of 2020 Capital Program

The capital work represents a key component of the Region of Peel's (Region) 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.

## **2020 Capital Performance and Impact on Capital Reserves and Reserve Funds**

The 2020 Capital work had an opening balance of \$4.2 billion which consists of 1,555 projects which are Regionally Controlled (\$4.0 billion), and those managed by external agencies (\$0.2 billion) such as Peel Regional Police (PRP), Ontario Provincial Police (OPP) and Conservation Authorities. This includes new capital work approved in the 2020 capital budget (\$1.1 billion), 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 (\$3.1 billion).

As at December 31, 2020, the capital work had 1,354 active capital projects with a gross remaining budget of \$3.5 billion (\$3.4 billion for Regionally Controlled) after capital spending of \$0.7 billion.

The Budget Policy requires that staff report the status of the capital program at a minimum of twice annually. This report provides the third and final update on the status of 2020 Capital Operations and the impact on Capital Reserves and Reserve Funds as at December 31, 2020.

### **2. Capital Operations and Financing Impact**

The Region actively monitors the performance of the capital operations by tracking the capital project progress through various stages of its 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**

Capital spending for both Tax and Utility Rate Supported services (including Regionally Controlled and external agencies) in the twelve months of 2020 amounted to \$675.8 million (\$640.1 million for Regionally Controlled), with \$288.2 million spent in Tax Supported Services and \$387.6 million spent in Utility Rate Supported Services.

The \$675.8 million capital spending during the twelve months of 2020 was invested in the Region's major services. Highlights are provided in Appendix I.

#### **b) The Progress of Regionally Controlled Capital Program**

The progress of Regionally Controlled capital projects, comprising 1,370 out of the total of 1,555 Region of Peel projects, was actively monitored and measured. Of the 2020 opening balance of Regionally Controlled capital work of \$4.0 billion, 96 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. Four per cent of capital projects (\$157.4 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 1,370 Regionally Controlled capital projects, 153 projects were completed during the twelve months of 2020 with \$15.4 million net unspent funds returned to reserves. The Regionally Controlled Capital Program ended the third triannual period of 2020 with a closing balance of \$3.4 billion. Summaries are provided in Appendix II.

## 2020 Capital Performance and Impact on Capital Reserves and Reserve Funds

### 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 Council on the 25 largest capital projects based on 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 46 per cent of the remaining budget of active regionally controlled capital projects.

As of December 31, 2020, 21 of the 25 capital projects are on track. Four projects are delayed.

- Peel Manor site redevelopment (Seniors Health and Wellness Village) - Construction schedule continues to be impacted by the COVID-19 pandemic. The revised substantial completion is expected in the first quarter of 2022. Abatement, demolition, and the balance of the site works are still on track for a fourth quarter completion in 2022.
- The Highway 50-600 Metres South - Highway 427 extension and widening of Major Mackenzie Drive, which will be constructed by York Region ahead of the Region's Highway 50 project, requires a redesign of the intersection of Major Mackenzie and Highway 50 to accommodate temporary conditions. Special Policy 47 (SP47) Environmental Assessment (currently underway and led by the City of Brampton), could potentially impact Regional Road 50. Detailed design will resume once the temporary works are complete and the outcome of the SP47 EA Study has been determined.
- Mayfield Rd-Airport Road to The Gore Road – Challenges experienced due to property acquisition. Property Acquisition was anticipated to be completed by the end of 2021, utility reallocations in 2022 and road widening construction in 2023 to 2024.
- Williams Parkway Sub-Transmission - The City of Brampton has cancelled the road widening of Williams Parkway. The planned combined tender with the City of Brampton is not feasible due to the traffic impact. The consultant has started a re-design and this is expected to be completed by mid-2022 with the tender in late 2022.

Ten projects are in the construction stage and the remaining 15 projects are in initiation, planning, procurement and design stages.

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

- The total gross budget of the top 25 largest projects is \$2.5 billion with a remaining budget of \$1.6 billion
- By the end of the third triannual period, the cumulative spending of the top 25 capital projects amounted to \$905.2 million or 36 per cent of the gross approved budget

## **2020 Capital Performance and Impact on Capital Reserves and Reserve Funds**

### **3. Impact of 2020 Capital Program on Capital Reserves and Reserve Funds**

Capital spending impacts the Region's internal capital reserves and overall financial flexibility. To execute the 2020 Capital Program within the constraints of the cash levels of the reserves and reserve funds, staff continues to proactively phase in the capital projects. As major projects move from one phase to the next, consideration is given to the Region of Peel's current financial condition prior to proceeding.

#### **a) Capital Reserves**

The 2020 Regionally Controlled capital activities resulted in a total net reserve return of \$52.3 million during the year (\$54.3 million returned to internal capital reserves and \$2.0 million drawn from the Development Charge reserve funds). As at December 31, 2020, the Regionally Controlled internal capital reserves uncommitted balance was estimated at \$269.5 million.

Overall, the long-term sustainability of the Region's capital reserves has remained strong over recent years through Regional Council's approval of the tax and utility rate infrastructure levies to allow for increases to the capital reserve contributions. Effective management of approved capital budgets and ongoing review of capital plans have also helped the Region of Peel to maintain financial sustainability.

#### **b) Development Charges**

Development Charges are a key funding source for growth related capital projects. The total Development Charges revenue collected in 2020 was \$269.4 million, lower by 24 per cent from the forecast amount in the 2015 Development Charge Background Study of \$354.4 million. The Region's 2020 Development Charge By-law update became effective on January 22, 2021.

#### **c) Impact on Debt Plan**

Debt is primarily issued to fund timing differences between growth related revenues and expenses. Projects funded by debt are typically growth-related infrastructure projects with long useful lives. The debenture program is managed in accordance with the Region's Debt Management Policy and applicable legislation and regulations. In 2020, the Region issued \$200 million of Development Charge related debt. During the 2015 DC By-law update, debt financing requirements were estimated at \$2 billion by 2020.

As at December 31, 2020 the Region of Peel's net outstanding debt totals \$1.4 billion. The debt can be separated into three general categories as illustrated in Table 1 below.

## 2020 Capital Performance and Impact on Capital Reserves and Reserve Funds

Table 1: Outstanding Debt as of December 31, 2020

Type of Debt	Net Outstanding Debt*
DC Growth Related Debt	<b>\$1,625.6M</b>
Non-DC Growth Related Debt (Tax Supported)	
Facility – 7120 Hurontario	\$50.0M
Social Housing	\$35.0M
Coleraine Drive Debt Transfer from Caledon	\$2.6M
<b>Subtotal Non-DC Growth Related Debt</b>	<b>\$87.6M</b>
<b>Less: Sinking Fund Contributions and Principal payments**</b>	<b>\$(419.6)M</b>
<b>Mortgages (Peel Living)</b>	<b>\$114.2M</b>
<b>Total Net Debt</b>	<b>\$1,407.8M</b>

\*Figures are unaudited and exclude borrowings for local municipalities.

\*\*Figure includes an estimate for the interest earned to date from the sinking fund.

The Province imposes an Annual Repayment Limit on municipalities. The Annual Repayment Limit is set at 25 per cent of the net revenues for the municipality. Based on the most current Provincial estimate, the Region's net debt charges were 8.1 per cent of net revenues and the Region had capacity of approximately \$291 million in annual debt charges before the 25 per cent maximum would be reached.

Despite the significant amount of room within the Annual Repayment Limit, it is likely that key rating metric thresholds consistent with the Region's current Triple A rating would be approached prior to reaching the 25 per cent ARL threshold. The Region closely monitors credit rating metrics to internally monitor financial flexibility and sustainability.

#### 4. Financing Source Change Request

##### **Request to change financing source for the Vehicle Communication Software/Hardware Capital Project (208920) of \$53,000 from Federal Gas Tax Funds reserve to Soc-TransHelp Vehicle reserve.**

Staff is requesting to change the funding source for the Vehicle Communication Software/Hardware capital project for the portion funded from Federal Gas Tax in the amount of \$53,000 from Federal Gas Funds Tax reserve (R0025) to the Soc-TransHelp Vehicle reserve (R1615).

The total project budget is \$2,000,000 and is part of the Police Services Capital Budget with funding from various sources including other Regional reserves, Police reserves and External Recoveries/Revenues. Under the Federal Gas Tax guidelines, projects must adhere to specific requirements and it was determined that this project does not currently meet the requirement that "The investment will have a measurable impact on public transit outcomes (e.g. ridership, reliability, or service quality)."

## **2020 Capital Performance and Impact on Capital Reserves and Reserve Funds**

Staff is seeking approval from Council to change the funding source from Federal Gas Tax Funds reserve to internal reserves, specifically the Soc -TransHelp Vehicle reserve (R1615) in the amount of \$53,000.

### **CONCLUSION**

Overall, capital operations largely progressed as planned in 2020 and development charge funded projects continue to be reviewed for opportunities to slow down or pause/defer expenditures in alignment with the lower development charge revenue forecast. The 2020 capital work was implemented within the constraints of the reserves, reserve funds and debt plan, which allows the Region to maintain its financial flexibility.

### **APPENDICES**

Appendix I - 2020 Capital Spending (January – December)

Appendix II - Capital Program 2020 Work in Progress (WIP) - Regionally Controlled Program

Appendix III - Status of Top 25 Capital Projects with Gross Remaining Budget – Regionally Controlled Program

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*For further information regarding this report, please contact Norman Lum, Director, Business and Financial Planning, 905-791-7800 ext. 3567, [Norman.Lum@peelregion.ca](mailto:Norman.Lum@peelregion.ca).*

### ***Reviewed and/or approved in workflow by:***

Department Commissioner, Division Director, Financial Support Unit and Legal Services.