

Analyst Briefing Notes

Budget Committee Review

(February 8, 2007)

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PART I: CAPITAL PROGRAM**Executive Summary**

- The 2006 Approved Capital Budget of \$16.565 million was 31% or \$5.118 million spent as at September 30, 2006. Year-end expenditures are projected to be \$9.004 million or 54% of the 2006 Approved Budget. The projected under expenditure of \$7.561 million is primarily attributable to the delay in finding appropriate sites for new child care centres (\$2.8 million) and a reduction to the Health and Safety/Playground project of \$4.0 million as the Provincial share was not available in 2006. The Program is projecting a year-end spending rate of 72% for the controllable portion of the 2006 Approved Capital Budget of \$12.565 million. The projection of 2006 funding to be carried forward into the 2007 Recommended Capital Budget is \$1.115 million for three child care centre projects: Thorncliffe Park, Bergamot Ave, and Yonge Street child care centres.
- The 2007 Recommended Capital Budget and 2008 – 2011 Plan total \$36.965 million, requiring new debt funding of \$6.4 million which is at the debt guideline. Estimates for 2012-2016 will be provided for the 2008 capital budget process. The 2007 Recommended Capital Budget includes:
 - previously approved commitments and new projects requiring 2007 cash flow of \$8.270 million gross with debt funding of \$1.0 million, which is at the debt guideline. This cash flow combined with carry forward funding of \$1.115 million for 2006 projects brings the total 2007 Recommended Capital Budget to \$9.385 million; and,
 - future year commitments of \$1.626 million in 2008 and \$0.500 million in 2009. Due to the difficulty of finding appropriate sites, the cash flow for the construction of two new child care centres are spread out over a period of three years. This project is fully funded from the Child Care Capital Reserve Fund.
- The 2007 recommended cash flow of \$9.385 million is 53% allocated to Health and Safety projects at \$5.0 million and 47% to Service Improvement projects at \$4.385 million. It will allow for the completion in 2007 of three previously approved projects, Bergamot Avenue child care centre (\$0.695 million) and Yonge Street child care centre (\$0.030 million) and Best Start funding for municipally operated child care centre facilities (\$1.950 million); design and construction of two new child care centres in under-served areas at a cost of \$3.836 million to be completed in 2008 and 2009; and, ongoing health and safety repairs for child care and family resource centre playgrounds of \$5.0 million in 2007.

- The 5-Year Capital Plan, including carry forward funding from 2006 to 2007, totals \$36.965 million with 2007 cash flow of \$9.385 million; \$7.726 million in 2008; \$7.6 million in 2009; \$6.5 million in 2010; and, \$5.754 million in 2011.
- The 5-Year Capital Plan will provide funding for the following: 4 new child care centres in under-served wards within the City; address the state of good repair backlog for the Dovercourt child care centre; various infrastructure improvements/repairs for municipally operated child care centre facilities eligible under Best Start funding with specific projects to be reported to Community Development and Recreation Committee in June 2007; and assist child care operators to address health and safety issues including playground retrofit to comply with licensing requirements under the Day Nurseries Act and the new Canadian Standards Association (CSA) standards.
- State of Good Repair (SOGR) backlog for the Dovercourt facility has been identified, and funding of \$1.4 million is allocated over a four year period, starting in 2008, to address this backlog.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Capital Budget for Children's Services with a total project cost of \$5.0 million and a 2007 cash flow of \$9.385 million and future year commitments of \$2.126 million be approved. The 2007 Recommended Capital Budget consists of the following:
 - a) New Cash Flow Funding for:
 - i. 1 new sub-project with a 2007 total project cost of \$5.0 million that requires cash flow of \$5.0 million in 2007 and no future year commitments;
 - ii. 4 sub-projects from previously approved projects with carry forward funding from 2005 and prior years requiring 2007 cash flow of \$3.27 million with commitments of \$1.626 million in 2008 and \$0.500 million in 2009; and,
 - b) 2006 approved cash flow for 3 previously approved sub-projects with carry forward funding from 2006 into 2007 totalling \$1.115 million.
2. new debt service costs of \$0.030 million in 2007 and incremental costs of \$0.110 million in 2008 resulting from the approval of the 2007 Recommended Capital Budget be approved for inclusion in 2007 and future year operating budgets;
3. approval of \$4.0 million of the \$5.0 million gross expenditure for the Health and Safety / Playground project, corresponding to Provincial subsidies, be conditional on receiving this funding from the Province; and,
4. the 2008-2011 Capital Plan for Children's Services totaling \$27.58 million in project commitments and estimates, comprised of \$7.726 million in 2008; \$7.6 million in 2009; and \$6.5 million in 2010 and \$5.754 million in 2011, be approved.

2006 Capital Variance Review

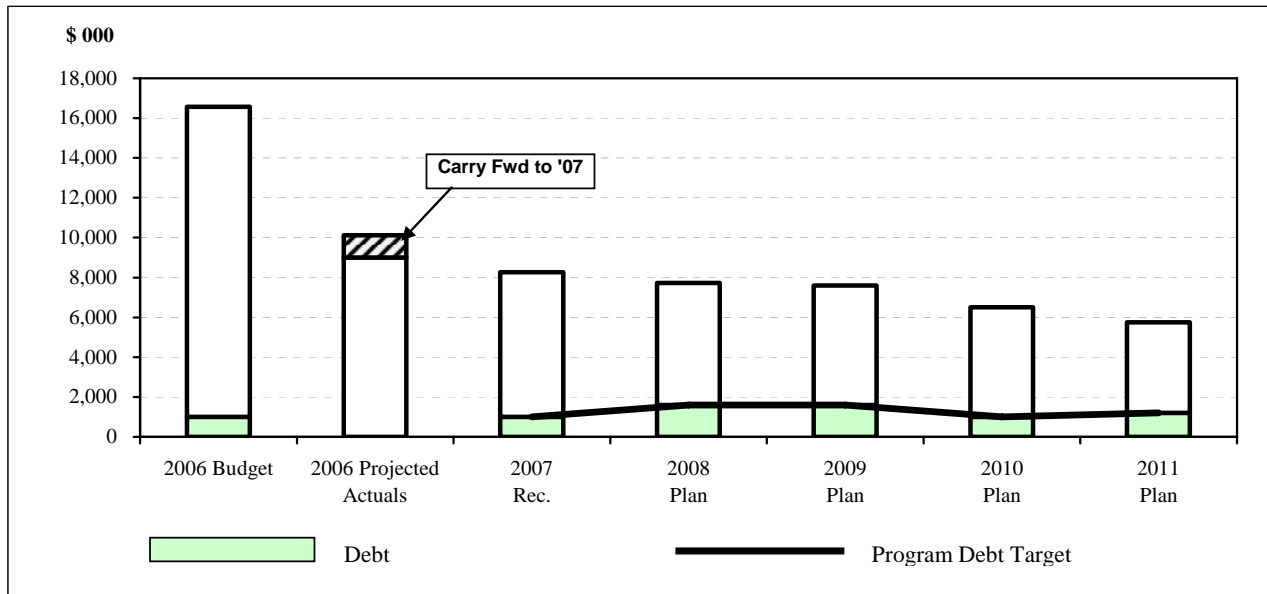
2006 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2006 Approved	Actuals as of Sept. 30 Y-T-D (3rd Qtr Variance)		Projected Actuals to Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
16,565	5,118	31	9,004	54	7,561

Comments / Issues:

- Children's Services spent \$5.118 million or 31% of its 2006 approved cash flow of \$16.565 million during the nine-month period ended September 30, 2006. The Program projects spending of \$9.004 million or 54% of its 2006 approved cash flow by year-end, an improvement over the 18.6% spending rate in 2005. In 2005, the Program had difficulties in co-ordinating the planning of all capital projects with the Best Start Initiative (100% provincial funds) as Provincial approval of the City's Best Start Service and Transition Plan was required prior to its implementation.
- Of the projected under-expenditure of \$7.561 million, \$4.0 million is attributable to the Provincial share (80%) of the Health and Safety/Playground project. Spending of the Provincial portion is contingent on the City receiving this funding and the Province has confirmed that this is not available in 2006. Excluding the under expenditure of the provincial subsidy of \$4.0 million, the Program projects a year-end spending rate of 72% for controllable expenditures.
- The projected 2006 year-end under spending is mainly due to the following:

Project/Sub-Project Name	2006 Plan	Projected Actual \$000s	Variance	Comment
5128/5200 Yonge St. - Child Care Centre	130.0	100.0	30.0	Minor builder deficiencies to be addressed in 2007.
610 Jane Street	6.0	6.0	-	Project completed
118 Enderby -2003	1,710.2	1,710.2	-	Project completed
Health & Safety / Playground	10,000.0	6,000.0	4,000.0	Under expenditure is the Provincial share of 80% which will not be provided in 2006. Spending was conditional on the City receiving this Provincial subsidy.
Thorncliffe Park Child Care Centre (Child Care Centre A)	1,959.0	110.0	1,849.0	Construction delayed. Site identified and approved by City Council later than planned. \$1.223 million in funding will be carried forward to 2007 and \$0.626 million to 2008. Funded from the Child Care Capital Reserve Fund
Child Care Centre B	987.0	-	987.0	Site has not been identified. \$0.487 million in funding will be carried forward to 2007 and \$0.500 to 2008. Funded from the Child Care Capital Reserve Fund
Dovercourt SOGR	478.0	478.0	-	Project expected to be completed by year-end 2006
Best Start - Bergamot Ave	1,295.0	600.0	695.0	Construction is continuing to 2007 with completion scheduled for November 2007. \$0.600 million in funding will be carried forward to 2007. Funded 100% from the Provincial Best Start Initiative.
TOTAL	16,565.2	9,004.2	7,561.0	

5-Year Capital Plan (2007-2011)



	2006		5-Year Plan					2007-2011
	Budget	Projected Actual	2007 Rec.	2008	2009	2010	2011	
Gross Expenditures:								
Capital Budget & Future Year Commitments	16,565	9,004	8,270	1,626	500			10,396
New Plan Estimates				6,100	7,100	6,500	5,754	25,454
1-Year Carry Forward to 2007		1,115						
Total Gross Annual Expenditures & Plan	16,565	10,119	8,270	7,726	7,600	6,500	5,754	35,850
Program Debt Target	1,000		1,000	1,600	1,600	1,000	1,200	6,400
Financing:								
Recommended Debt	1,000		1,000	1,600	1,600	1,000	1,200	6,400
Other Financing Sources:								
Reserves/Reserve Funds	10,270		1,320	2,126	2,000	1,500	554	7,500
Development Charges								
Federal								
Provincial	5,295		5,950	4,000	4,000	4,000	4,000	21,950
Other Revenue								
Total Financing	16,565		8,270	7,726	7,600	6,500	5,754	35,850
By Category:								
Health & Safety	5,000		5,000	5,000	5,000	5,000	5,000	25,000
Legislative								
SOGR				600	600		200	1,400
Service Improvement	11,565		3,270	2,126	2,000	1,500	554	9,450
Growth Related								
Total By Category	16,565		8,270	7,726	7,600	6,500	5,754	35,850
Yearly SOGR Backlog Estimate (not addressed by current plan)				(600)	(600)		(200)	(1,400)
Accumulated Backlog Estimate (end of year)		1,400	1,400	800	200	200	0	0
Operating Impact on Program Costs								
Debt Service Costs			30	158	232	219	157	796

* Note that the 1-Year Carry Forward reflects the latest estimate as used in the 2006 3rd Quarter Capital Variance Report.

5-Year Capital Plan Overview

Children's Services' 5-Year Capital Plan will be funded by Provincial subsidies of \$21.95 million, Child Care Capital Reserve Funds of \$7.0 million, and the balance of \$6.4 million from debt. The 5-Year Capital Plan is comprised of 71% Health and Safety projects totalling \$25.0 million, 4% SOGR for a total of \$1.4 million, and 25% Service Improvement projects at \$8.95 million.

The 5-Year Capital Plan includes 4 projects, as follows:

- **Health and Safety / Playground (\$25.0 million):**

- This project was a seven-year phased plan approved by City Council in 2000 to assist child care operators to address health and safety issues including playground retrofit to comply with licensing requirements under the Day Nurseries Act and the new Canadian Standards Association (CSA) standards.
- Prior to 2003, retrofit funding was part of the Program's operating budget. However, the responsibility for health and safety funding for child care centres was downloaded to the City as part of the Province's service system management responsibilities and funding was transferred to the capital budget. Since 2003 to date (2006), a total of \$11.207 million has been spent, with the Province providing \$8.535 million as part of the funding under the Multilateral Framework for Early Learning.
- The 5-Year Capital Plan of \$25.0 million assumes 80% funding from the Province of \$20.0 million and 20% or \$5.0 million from City debt. Due to the uncertainty of provincial funding commitment for health and safety needs of existing child care centres, the Provincial share of expenditures must be conditional upon the receipt of Provincial funding of \$4.0 million for 2007 and \$4.0 million for each of the years 2008-2011.

- **Dovercourt Renovation (\$1.4 million):**

- An SOGR backlog of \$1.4 million has been identified for the City-owned building at 455 Dovercourt currently occupied by Children's Services and Social Services.
- This project has been deferred to 2008 as the estimate for the original plan for this facility far exceeded the available funding allocated for the renovation of this building. Children's Services will consult with Social Services, and Facilities and Real Estate to review and prioritize the repairs that can be completed within the debt affordability target of \$1.4 million over a four year period. Details will be included in the 2008 Capital Budget.

- **New Child Care Centres (\$7.89 million funded from the Child Care Capital Reserve Funds):**

- The City Council approved Childcare Service Plan recommended the development of new licensed child care spaces by proposing to build four new child care centres to meet the child care needs in high needs and under-served wards within the City.
- Funding from the Child Care Capital Reserve Fund will be used to cover the estimated total project cost of \$8.0 million, spread over a five-year period with a

2007 cash flow request of \$1.320 million to be used for the construction of the first child care centre and the design of the second child care centre. The Child Care Capital Reserve Fund projected balance at 2006 year end is \$12.9 million.

- The construction of the four child care centres are phased over the period 2007–2011. Under-served areas have been identified however; it has been difficult to find suitable sites based on the approved Child Care Service Plan.
 - The first site has been identified in Thorncliffe Park, and construction is expected to begin in the first quarter of 2007 and completed in 2008.
 - There will be no operating budget impact for these centres as they will be operated by non-profit child care agencies.
- **Best Start - Municipal Child Care Centres (\$1.95 million):**
 - Capital projects under Best Start focused on the creation of child care centres for children under 5 years of age in City-owned and non-City owned sites. In October 2005, Council adopted a report from the General Manager of Children Services entitled “Best Start Transition Infrastructure Plan” allocating approximately \$2.0 million of Best Start funds in capital funding for Child Care Centres in City-owned properties. Non-City owned child care centres are funded from the Operating Budget as they are non-City owned assets.
 - However, due to the changes in Best Start funding as a result of the cancellation of federal/provincial agreements, the Program is reviewing the allocation of the balance of the 2005/2006 Best Start funds received from the Province that was transferred to the Child Care Expansion Reserve Fund in 2006. A report will be submitted to Council in June 2007 recommending the allocation of Best Start funds, including capital funding of \$1.95 million for City-operated child care facilities.

Multi Year Debt Affordability Target

- The 5-Year Capital Plan meets the Council debt affordability target at \$6.4 million for the five-year period. To achieve the debt targets for each of the five years, Children's Services adjusted the funding for Dovercourt Renovation Project to reflect the debt funding available of \$1.4 million, spread out over a four year period commencing in 2008.

Capacity/State of Readiness:

The difficulty in completing projects as planned is mainly due to the uncertainty of provincial cost sharing. The Health and Safety / Playground Project of \$5.0 million is funded from \$1.0 million debt and \$4.0 million or 80% from Provincial subsidies. Spending of the provincial portion is contingent on receiving this funding from the Province and provincial confirmation received in a timely manner. The City’s portion of the Health & Safety / Playground (\$1.0 million per year) has consistently been spent to fund necessary health and safety projects in community child care programs.

The New Child Care Centre Project has not proceeded as planned due to the difficulty of finding suitable sites for new child care centres as identified in the “Childcare Service Plan” approved by City Council. The site of the first child care centre was only identified and approved by City Council in late 2006. The design of this project is underway and construction is expected to begin in the first quarter of 2007 and completed in 2008. The completion of the three new child care centres is dependent on the ability of finding appropriate sites in under-served areas of the City.

Recommended Changes to the 5-Year Plan

City Council considered the 5-Year Plan (2006-2010) at its meeting of July 25, 26 and 27, 2006. The plan was endorsed in principle. The changes from the original 5-Year Plan have no debt impact as the two projects with an increase in funding are funded from the Child Care Capital Reserve Fund and the Best Start Initiative funded, 100% by the Province.

Highlights of the changes are summarized below:

	5-Year Capital Plan Changes					Comment
	2007	2008	2009	2010	2011	
Gross Expenditure:						
New Child Care Centre	1,320	626	-	(554)	554	Previously approved New Child Care Centre Project, fully funded from the Child Care Capital Reserve Fund. The unspent funding in 2006 will be carried forward to 2007. Construction of the four new child care centres are phased over four years starting in 2008.
Best Start	1,950					Previously approved project funded from 100% Provincial Best Start funds. The unspent funding in 2006 will be carried forward to 2007.
Dovercourt SOGR					200	Additional SOGR requirements.
Total - Gross	3,270	626	-	(554)	754	
Debt	-	-	-	-	200	Within the debt affordability target for 2011

Backlog of Projects – Unmet

This Program's SOGR backlog of \$1.4 million by year-end 2006 for the Dovercourt Facility will be addressed by 2011.

The SOGR backlog for other City-owned facilities occupied by Children's Services has not been determined. In December 2006, Facilities and Real Estate (F&RE) conducted a Building Condition Assessment and based on this assessment, will recommend the annual funding required to maintain each facility operated by Children's Services. Children's Services will include F&RE recommended annual SOGR funding requirements as part of their Capital Budget Submission for 2008.

Operating impact of the 5-Year Capital Plan

There is no operating impact resulting from the 5-Year Capital Plan.

Pre-approvals

City Council at its meeting of December 5 and 6, 2006 approved the report from the Deputy City Manager and Chief Financial Officer, entitled 'Pre-Approval of 2007 Capital Projects Commitment and Spending' at its meeting of September 15, 2006. City Council on December 5 and 6, 2006, adopted the following motion:

The recommended pre-approval cash flow required for the first quarter of 2007 for Children's Services in the amount of \$1.3 million is comprised solely of previously approved projects. Of this total, \$1.115 million represents 2006 unspent funding being carried forward to 2007 to continue on-going projects such as the Child Care Centre – 5100 Yonge Street, Thorncliffe Park Child Care Centre and the Bergamot Ave. In addition, \$0.185 million of pre-approval cash flow is required to ensure continuity of projects underway for which 2007 funding has been previously approved and will be required to be spent in the first few months of the year.

**Total 2007 Recommended Cash Flow & Future Year Commitments
(\$000s)**

	2005 & Prior Year Carry Forward	2007 Previously Approved Cash Flow Commitments	2007 New Cash Flow Recommended	2007 Total Cash Flow Recommended	2007 Debt Target	2006 Carry Forward	Total 2007 Cash Flow (Incl 2006 C/Fwd)	2008	2009	2010	2011	2012- 2016	Total Cost
Expenditures													
Previously Approved	3,270			3,270		1,115	4,385	1,626	500				6,511
Change in Scope													0
New			5,000	5,000			5,000						5,000
New w/Future Year													0
Total Expenditure	3,270	0	5,000	8,270		1,115	9,385	1,626	500	0	0	0	11,511
Financing													
Debt			1,000	1,000	1,000		1,000						1,000
Subsidy													0
Prov. Subsidy/Grant	1,950		4,000	5,950		695	6,645						6,645
Development Charges													0
Other													0
Federal Grants													0
Reserves/Res Funds	1,320			1,320		420	1,740	1,626	500				3,866
Total Financing	3,270	0	5,000	8,270		1,115	9,385	1,626	500	0	0	0	11,511

Comments / Issues:

- The 2007 Recommended Capital Budget of \$9.385 million gross will result in a commitment of \$1.626 million in 2008 and \$0.500 million in 2009. The 2007 Recommended Capital Budget is funded by debt (\$1.0 million); Provincial Subsidy (\$4.0 million) and Best Start Initiative funding (\$2.645 million); and, Child Care Capital Reserve Funds of 1.74 million. The 2008 and 2009 commitments are for previously approved New Child Care Centres projects, fully funded by the Child Care Capital Reserve Fund
- The 2005 and Prior Year Carry Forward funding is required for Best Start capital projects for municipally operated child care centres serving children under 5 years that are funded 100% by the Province and for the construction and design of two new child care centres fully funded from the Child Care Capital Reserve Fund.
- The 2006 carry forward funding to 2007 of \$1.115 million is required for three projects expected to be completed in 2007: the Bergamot Avenue and Yonge St Child Care Centres; and the design phase of the new child care centre in Thorncliffe Park with construction planned for early 2007.

2007 Recommended Capital Budget

2007 Recommended Capital Budget versus Debt Target

The 2007 Recommended Capital Budget of \$9.385 million requires new debt funding of \$1.0 million which is at the debt affordability target set for Children's Services. To achieve the debt affordability target, Children's Services deferred the Dovercourt Renovation Project to commence in 2008.

Capacity /Readiness

The 2007 Recommended Capital Budget includes five previously approved sub-projects that are underway: The two child care centres, Yonge Street and Bergamot Avenue, are anticipated to be completed in 2007. The construction of the child care centre identified at Thorncliffe Park is ready to begin in early 2007 once the design work has been finalized and the design of the second child care centre will commence once a site has been identified

The Program is currently reviewing the capital funding allocation for municipally operated child care centre in light of the announced reductions to Best Start allocation. A report is planned for submission to City Council in June 2007 recommending the future allocation of Best Start funds, including the \$1.95 million Best Start capital funding for City operated child care facilities.

Full spending of the Health and Safety / Playground project is dependent on the City receiving the Provincial share of 80% or \$4.0 million.

Operating Budget Impact

Incremental Operating Impact Summary

Incremental Operating Budget Impact	2007	2008	2009	2010	2011
Program Costs (net) (\$000s)					
Debt Service Charges (\$000s)	30.0	110.0			
Approved Positions					

Program Operating Impacts

There is no operating impact from the approval of the 2007 Recommended Capital Budget.

PART II: ISSUES FOR DISCUSSION**2007 Capital Budget Issues**

There are no issues regarding the 2007 Recommended Capital Budget.

5-Year Capital Plan Issues**Child Care Capital Reserve Fund.**

The Child Care Reserve Fund was established in 1997 from surplus in user revenues. The projected balance at 2006 year-end is \$12.9 million with current commitments and future year estimates of approximately \$8.3 million (new child care centres from 2007 – 2011), leaving an uncommitted balance of \$4.6 million by year-end 2011. At an average cost of \$2.0 million per child care centre per year, the reserve is projected to fund two more new child care centres for the period 2012- 2013.

Once this reserve is exhausted, the Program will be faced with the challenge of finding other financing sources to support the expansion of child care centres across the City.

State of Good Repair

Historically, funds for SOGR have been included in the Municipal Child Care budget of Children's Services in order to be eligible for 80% Provincial cost sharing for program delivery. Approximately \$0.6 million is included in Children's Services' 2006 Approved Operating Budget for this purpose and was applied to both City-owned and rented premises.

In December 2006, Facilities and Real Estate conducted a Building Condition Assessment that will recommend annual funding required to maintain each facility operated by Children's Services. Where appropriate, Children's Services will include SOGR projects in future Capital Budgets based on this new building condition assessment.

Appendix 4

Reserve / Reserve Fund Review

(\$000s)

Reserve / Reserve Fund Name	Project / SubProject Name and Number	Projected Balance as of December 31, 2006	Proposed Withdrawals				
			2007	2008	2009	2010	2011
XR1103 Child Care Capital Reserve Fund	Beginning Balance	\$12,936,551	\$12,936,551	\$10,796,551	\$8,670,551	\$6,670,551	\$5,170,551
	2007 Operating Budget		(\$400,000)				
	CHS000001 - Child Care Centre - 5176/5200 Yonge Street		(\$30,000)				
	CHS906381 - 0002 Thorncliffe Park CCC		(\$1,223,000)	(\$626,000)			
	CHS906381 - 0004 Centre B		(\$487,000)	(\$1,000,000)	(\$500,000)		
	CHS906381 - 0006 Centre C			(\$500,000)	(\$1,000,000)	(\$500,000)	
	CHS906381 - 0001 Centre D				(\$500,000)	(\$1,000,000)	(\$554,000)
	Total Proposed Withdrawals			(\$2,140,000)	(\$2,126,000)	(\$2,000,000)	(\$1,500,000)
TOTAL RESERVE FUND BALANCE AT YEAR-END		\$12,936,551	\$10,796,551	\$8,670,551	\$6,670,551	\$5,170,551	\$4,616,551

Appendices 1-3 not available online.