

**Analyst Briefing Notes**  
**Budget Committee Review**  
**(February 8, 2007)**

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January 29, 2007

**PART I: CAPITAL PROGRAM****Executive Summary**

- The 2006 Approved Capital Budget of \$15.890 million was 38% spent as at September 30, 2006. Actual expenditures by year-end are anticipated to be \$14.332 million, or 90% of the Approved Budget, resulting in projected 2006 cash flow funding of \$1.558 million being carried forward into 2007. This projected under expenditure is mainly due to unanticipated delays in implementing initiatives at Exhibition Place, Arenas and Fire Stations.
- The 2007 Recommended Capital Budget; 2008-2011 Plan and 2012 to 2016 Estimates total \$14.103 million of which \$14.103 million is projected for the Program's 5-Year Capital Plan, requiring debt funding of \$10.258 million and 2007 cash flow of \$7.103 million, \$5.000 million in 2008 and 2.000 million in 2009. The 5-Year Capital Plan meets the Program's debt targets for each of the 5 years.
- The 2007 Recommended Capital Budget including previously approved commitments requires new 2007 cash flow of \$7.103 million gross with debt funding of \$5.008 million. This cash flow combined with carry forward funding of \$1.558 million for 2006 projects brings the total 2007 Recommended Capital Budget to \$8.661 million gross, of which \$6.192 million is funded by recoverable debt.
- 43% of the 2007 Recommended Capital Budget is allocated to State-of-Good Repair (SOGR) projects at \$6.661million and 57% to Service Improvement projects at \$9.000 million.
- The 2007 recommended funding includes the following projects:
  - ⇒ Arenas energy and water retrofit projects in the amount of \$0.907 million;
  - ⇒ Fire Stations retrofit in the amount of \$0.544 million;
  - ⇒ Exhibition Place Buildings retrofit at \$0.710 million;
  - ⇒ Energy efficiency projects at Community Centres and Pools in the amount of \$4.500 million;
  - ⇒ Waster Transfer Stations retrofit at \$1.000 million; and
  - ⇒ Energy Retrofit of the Police Service buildings in the amount of \$1.000 million.
- All energy efficiency and retrofit projects at Arenas, Fire Stations, Exhibition Place and Community Centers and Pools will be completed in 2007.
- Funding of \$1.400 million in 2008 is required to complete the energy retrofit of the Police Service buildings. The remainder of the recommended funding of \$3.400 million in 2008 and \$2.000 million in 2009 will be used to fund future energy retrofit projects when identified.

- As a result of this Program's energy savings will be realized in the operating budgets of the programs undergoing retrofit work. The savings will be re-directed to pay back the debt required to fund the project. Once the full cost has been re-paid, the savings will be reflected in reductions in the operating budgets affected. Anticipated savings for 2007 are \$2.032 million, with incremental impacts of \$1.263 million in 2008 and \$0.300 million in 2009.
- The Energy Retrofit Program is aligned with one of the Mayor's Mandate key initiatives – "A Greener City". The resulting carbon dioxide and energy consumption decreases are in support of ecologically friendly building initiatives and reduction of greenhouse gas emissions as most important strategies to combat global warming.

### **Recommendations**

The City Manager and Chief Financial Officer recommends that:

1. the 2007 Recommended Capital Budget for Energy Retrofit Program with a total project cost of \$9.000 million and a 2007 cash flow of \$8.661 million and future year commitments of \$7.000 million be approved. The 2007 Recommended Capital Budget consists of the following:
  - a) New cash flow funding for:
    - i) 2 new sub-projects, including funds to be allocated in future years with a 2007 total project costs of \$9.000 million that requires cash flow of \$2.000 million in 2007 and a future year commitment of \$5.000 million in 2008 and \$2.000 million in 2009;
    - ii) 3 previously approved sub-projects with a 2007 cash flow of \$5.103; and
  - b) 2007 approved cash flow for 3 previously approved sub-projects with carry forward funding from 2006 into 2007 totalling \$1.558 million;
2. new debt service costs of \$0.045 million in 2007 and incremental costs of \$0.277 million in 2008, \$0.458 million in 2009 and \$0.165 million in 2010, resulting from the approval of the 2007 Recommended Capital Budget, be approved for inclusion in the 2007 and future year operating budgets;
3. operating impacts resulting in energy cost savings of \$2.032 million for 2007 and incremental savings of \$1.263 million in 2008 and \$0.300 million in 2009 emanating from the approval of the 2007 Capital Budget be considered within the overall scope of the 2007 and future years' operating budget submissions of the Programs involved in the Energy Retrofit Program; and
4. the 2008-2011 Capital Plan for Energy Retrofit Program totalling \$7.000 million in project commitments and estimates comprised of \$5.000 million in 2008 and 2.000 million in 2009, be approved.

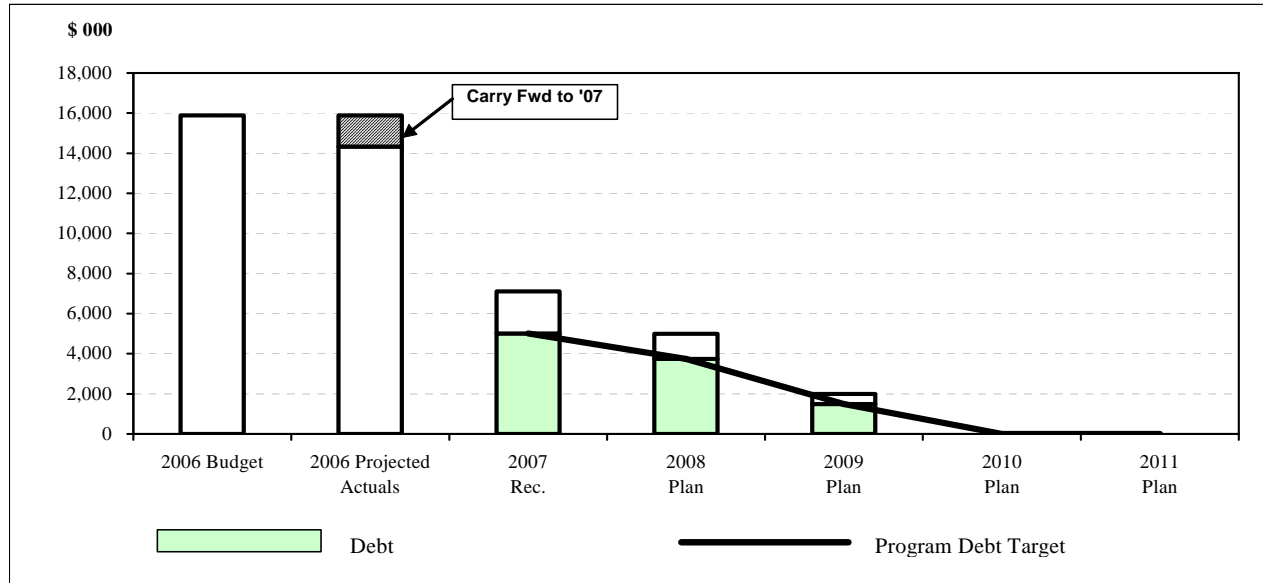
2006 Capital Variance Review

2006 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2006 Approved	Actuals as of September 30 (3rd Qtr Variance)		Projected Actuals at Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
15,890	6,007	38	14,480	91	1,410

Comments / Issues:

- At the end of the 3<sup>rd</sup> quarter, approximately \$6.007 million or 38% was spent of the 2006 Approved Capital Budget of \$15.890 million for the Energy Retrofit Program. Under spending is mainly due to unanticipated delays in implementing initiatives at Exhibition Place, Arenas and Fire Stations.
- The projected year-end spending rate for the Energy Retrofit Program is 91% or \$14.480 million in the September 30, 2006 Variance Report, resulting in a projected under spending of \$1.410 million.
- Of the \$1.410 million in under spending, \$0.710 million or 50% was the result of uncontrollable delays related to the building retrofits at Exhibition Place. The construction work had to be delayed due to interference with work on the soccer stadium. Coordination with the TTC is required to re-align sewers and the Program is also awaiting relevant approvals from Parks Canada.
- The carry forward funding included in the 2007 Recommended Capital Budget of \$1.558 million is based on the preliminary year-end variance estimates and is higher than the projected under spending in the 3<sup>rd</sup> quarter variance report. This variance is attributable to further delays in implementing the Fire Stations retrofit project. The carry forward funding will be used to complete the building retrofits at Exhibition Place and to continue work on the Arenas and Fire Stations projects. Should any adjustments to carry forward funding be identified these will be reported through to Budget Committee during its review of the 2007 Recommended Capital Budget.

5-Year Capital Plan (2007-2011)



	2006		5-Year Plan					2007-2011
	Budget	Projected Actual	2007 Rec.	2008	2009	2010	2011	
<b>Gross Expenditures:</b>								
Capital Budget & Future Year Commitments	15,890	14,332	5,103					5,103
New Plan Estimates			2,000	5,000	2,000			9,000
1-Year Carry Forward to 2007		1,558						
<b>Total Gross Annual Expenditures &amp; Plan</b>	<b>15,890</b>	<b>15,890</b>	<b>7,103</b>	<b>5,000</b>	<b>2,000</b>	<b>0</b>	<b>0</b>	<b>14,103</b>
<b>Program Debt Target</b>	n/a		<b>5,008</b>	<b>3,750</b>	<b>1,500</b>			<b>10,258</b>
<b>Financing:</b>								
Recommended Recoverable Debt			5,008	3,750	1,500			10,258
<b>Other Financing Sources:</b>								
Reserves/Reserve Funds								
Development Charges								
Federal								
Provincial								
Other Revenue	3,061		2,095	1,250	500			3,845
<b>Total Financing</b>	<b>3,061</b>		<b>7,103</b>	<b>5,000</b>	<b>2,000</b>			<b>14,103</b>
<b>By Category:</b>								
Health & Safety								
Legislative			6,500	5,000	2,000			13,500
SOGR	15,889		603					603
Service Improvement								
Growth Related								
<b>Total By Category</b>	<b>15,889</b>		<b>7,103</b>	<b>5,000</b>	<b>2,000</b>			<b>14,103</b>
Yearly SOGR Backlog Estimate (not addressed by current plan)								0
Accumulated Backlog Estimate (end of year)								0
<b>Operating Impact on Program Costs</b>			(2,032)	(1,263)	(300)			(3,595)
<b>Debt Service Costs</b>			150	663	458	165	0	1,436

\* Note that the 1-Year Carry Forward reflects the preliminary year-end estimate.

## **5-Year Capital Plan Overview**

### **Overview**

The Energy Retrofit Program was established in 2004 in order to facilitate achievement of the City's carbon dioxide and energy consumption reduction objectives. A framework was established during 2004 for the budgeting, approval and financing of energy retrofit projects for City-owned facilities. The financing is a combination of City debt and Federation of Canadian Municipalities (FCM) Green Fund loans. Savings realized in Program operating budgets are redirected towards the debt repayment until the debt has been fully repaid.

The Energy Retrofit projects included in this 5-Year Capital Plan consist of the final stages of two on-going projects (Arenas and Fire Stations -- \$0.603 million); the majority of the previously approved retrofits for Pools and Community Centres (\$4.500 million); and the new funding of \$9.000 million for various energy retrofit projects; not yet allocated.

There are two projects presently identified that qualify for the new funding: Solid Waste Transfer Stations Project (\$1.0 million) and Energy Retrofit Project for the Police Service Buildings (\$2.4 million). Both projects were considered and endorsed by the Energy Retrofit Program Committee.

### **Mayor's Mandate**

The Energy Retrofit Program is aligned with the following priorities outlined in the Mayor's Mandate:

- *Develop a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming*

The Energy Retrofit Program will result in operating savings to the Corporation due to lower consumption rates, as well as reducing carbon dioxide emissions due to energy conservation.

- *Implement the recently approved Toronto Green Building Standard to ensure ecologically friendly buildings*

The Program consists of energy retrofit projects across the City, enabling it to lead the way by ensuring that its own facilities meet ecologically friendly building initiatives.

### **Multi Year Debt Affordability Target**

Debt targets have been established for this Program for the years 2007-2009. The Program has met the Council approved debt affordability targets for those years. It should be noted that the debt issued for the capital work associated with this Program is to be repaid within 8 years from energy cost savings arising from the energy retrofits.

### **Capacity**

Four projects in this Program are previously approved and currently underway.

**State of Project Readiness**

All previously approved projects are anticipated to be completed by the end of 2007.

Two new projects, the Transfer Stations Project and the Energy Retrofit Project for the Police Service Buildings are ready to proceed following funding approval. Requests for Proposals will be prepared for both projects and can be issued following budget approval.

The Transfer Stations Project includes implementation of energy efficiency measures at eight Solid Waste Transfer Stations at a cost of \$1.0 million. The recommended funding estimate is based on a feasibility study completed by Toronto Hydro Energy Services for four Transfer Stations in 2005. Annual energy savings are estimated at \$125,000, resulting in a simple pay back period of 8 years. The project will be fully implemented in 2007 and savings are expected to be realized beginning in 2008. These figures will be confirmed following a more detailed feasibility study and design, since the initial estimate was based on results for four out of eight Transfer Stations.

The Energy Retrofit Project for the Police Service Buildings at a cost of \$2.4 million (\$1.0 million in 2007 and \$1.4 million in 2008) will retrofit 29 Police buildings. The recommended funding estimate is based on the two feasibility studies completed by Toronto Hydro Energy Services and Optimira Energy for two of the 29 buildings. Annual energy savings are estimated at \$300,000 or about 10% of total energy costs. These figures will be confirmed following a more detailed feasibility study and design. The project will be repaid from savings over an 8 year period starting in 2009.

**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 and endorsed the Plan in principle. No changes were made from the 5-Year Capital Plan considered in July 2006.

**State-of-Good-Repair Backlog and Unmet Need**

The Program does not have a backlog of projects.

**Operating Impact of the 5-Year Capital Plan**

The favourable operating impacts (energy savings) as a result of this Program will be realized in the operating budgets of the Programs undergoing retrofit work. These savings will be re-directed to pay back the debt required to fund the project. Once the full cost has been re-paid, the savings will be reflected in reductions in the operating budgets affected.

With the exception of the Community Centres project where most of the work is yet to be completed, savings will start to materialize at the beginning of 2007. Anticipated savings for 2007 are \$2.032 million as follows:

Exhibition Place – Energy Retrofits (\$0.072 million); Tri-generation (\$0.364 million); National Trade Centre Lighting (\$0.150 million)

City Arenas -- \$1.177 million (including George Bell and Ted Reeve Arena Boards of Management)

Fire Stations -- \$0.270 million

Full annual energy savings of \$2.420 million from the above projects will be achieved in 2008. Anticipated savings from the Pools and Community Centres Retrofit project of \$0.750 million are expected to be fully achieved in 2008, resulting in a total annual savings of \$3.170 million or an incremental operating impact of \$ 1.107 million in 2008.

In addition to the above, the following annual savings in energy costs are anticipated from the two new projects:

Transfer Stations -- \$0.125 million beginning in 2008

Energy Retrofit of the Police Service Buildings -- \$0.300 million beginning in 2009

These saving will be confirmed following a more detailed feasibility study and engineering.

## **Pre-approvals**

At its meeting of September 25, 26 and 27, 2006 City Council adopted Policy and Finance Report 7, Clause 77, containing recommendations of the Budget Advisory Committee concerning the report from the Deputy City Manager and Chief Financial Officer, entitled 'Pre-Approval of 2007 Capital Projects Commitment and Spending'. The report was subsequently considered and adopted by City Council at its meeting of December 5 and 6, 2006.

The pre-approval cash flow approved for the Energy Retrofit Program in the amount of \$0.700 million is comprised solely of funding being carried forward to 2007 to continue retrofit initiatives at City Arenas (\$0.500 million) and Fire Stations (\$0.200 million).

**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
<b>Expenditures</b>													
Previously Approved	0	5,103		5,103		1,558	6,661						6,661
Change in Scope													
New			2,000	2,000			2,000	5,000	2,000				9,000
New w/Future Year													0
<b>Total Expenditure</b>	<b>0</b>	<b>5,103</b>	<b>2,000</b>	<b>7,103</b>		<b>1,558</b>	<b>8,661</b>	<b>5,000</b>	<b>2,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,661</b>
<b>Financing</b>													
Debt		3,508	1,500	5,008	<b>5,008</b>	1,184	6,192	3,750	1,500				11,442
Subsidy (SCPI)													
Prov. Subsidy/Grant													
Development Charges													
Other		1,595	500	2,095		374	2,469	1,250	500				4,219
Federal Grants													
Reserves/Res Funds													
<b>Total Financing</b>	<b>0</b>	<b>5,103</b>	<b>2,000</b>	<b>7,103</b>		<b>1,558</b>	<b>8,661</b>	<b>5,000</b>	<b>2,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,661</b>

**Comments / Issues:**

- The 2007 Recommended Capital Budget is \$8.661 million gross, including \$5.103 million in funding for previously approved commitments, \$2.0 million for new projects and \$1.558 million to fund projects carried forward from 2006 to 2007.
- All previously approved projects will be completed in 2007.
- Approval of the 2007 Recommended Capital Budget will result in future year commitments of \$5.000 million for 2008 and \$2.000 million for 2009. In 2008, \$1.400 million will be used to fund the Transfer Stations Project and the Energy Retrofit Project for the Police Service Buildings. The remainder of the recommended funding (\$3.400 million in 2008 and \$2.0 million in 2009) will be used to fund future energy retrofit projects when identified in future budget processes.

## 2007 Recommended Capital Budget

### 2007 Recommended Capital Budget versus Debt Target

The 2007 Recommended Capital Budget meets the debt target of \$5.008 million.

## Operating Budget Impact

### Incremental Operating Impact Summary

Incremental Operating Budget Impact	2007	2008	2009	2010	2011
Program Costs (net) (\$000s)	(2,105)	(1,232)	(300)		
Debt Service Charges (\$000s)	45	278	458	165	
Approved Positions					

### Program Incremental Operating Costs

2007 Capital Projects/Sub-Projects		2007 (\$000s)	2007 Approved Positions Change	2008 (\$000s)
Exhibition Place	Buildings Retrofit	(72.00)	-	(128.00)
Exhibition Place	Tri-generation	(363.80)	-	(186.20)
Exhibition Place	National Trade Centre Lighting	(150.00)	-	0.00
Arenas Energy & Water Retrofit*	Arenas Energy & Water Retrofit	(1,176.60)	-	(48.66)
Fire Stations Retrofit	Fire Stations Retrofit	(270.00)	-	(25.00)
Pools and Community Centres	Pools and Community Centres		-	(750.00)
<b>Sub-Total</b>		<b>(2,032.40)</b>	<b>-</b>	<b>(1,137.863)</b>
Solid Waste Transfer Stations	Solid Waste Transfer Stations	-	-	(125.00)
<b>TOTAL</b>		<b>(2,032.40)</b>	<b>-</b>	<b>(1,262.86)</b>

\* Includes energy savings of \$49,300 for George Bell and Teed Reeve Arena Boards of Management.

The operating impacts (energy savings) as a result of this Program will be realized in the Operating Budgets of the Programs undergoing retrofit work. These savings will be re-directed to pay back the debt required to fund the project. Once the full cost has been repaid, the savings will be reflected in reductions in the Operating Budgets affected.

With the exception of the Community Centres where most of the work is yet to be completed, savings are to be realized beginning in 2007 and based on the most recent estimate they will amount to \$2.032 million. Full savings will be achieved in 2008, which will result in an incremental reduction in energy

costs of \$1.263 million, for a total energy cost savings of \$3.295 million annually (including the Solid Waste Transfer Stations project).

In addition to the above, additional savings in energy costs in the amount of \$0.300 million are anticipated from the Energy Retrofit of the Police Service Buildings in 2009.

It should be noted that savings in energy costs from all previously approved energy projects (Exhibition Place, City Arenas, Fire Stations and Pools and Community Centres Retrofit), currently projected at \$3.170 million annually, are in line with the estimates used for analysis at the time of individual project approvals.

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

The approved framework for this Program assumes a full review of projects being considered and subsequently approved by City Council.

An interdivisional team from various Programs in consultation with the Toronto Atmospheric Fund and the City Manager's Strategic and Corporate Policy Division is to review and recommend projects. An energy audit must be completed and finally, a full business case submitted. A project must have a payback period of 8 years or less and savings must be used to repay debt.

The 2007 Recommended Capital Budget includes \$2.000 million cash flow funding for two new projects: Solid Waste Transfer Stations Project and Energy Retrofit Project for the Police Service Buildings. Both projects were considered and endorsed by the Energy Retrofit Program Committee. All required criteria were met by both projects.

**5-Year Capital Plan Issues****Future Year Targets**

No targets have been identified beyond 2009. Should the City wish to continue the Energy Retrofit Program, additional debt funding will need to be directed to this Program.

Appendices not available online.