

## **Budget Committee Recommended 2007 Capital Budget and 2008 – 2011 Capital Plan**

|                          |   |
|--------------------------|---|
| <b>Date:</b>             | February 22, 2007   |
| <b>To:</b>               | Executive Committee   |
| <b>From:</b>             | City Manager<br>Deputy City Manager and Chief Financial Officer |
| <b>Wards:</b>            | All   |
| <b>Reference Number:</b> | P:\2007\Internal Services\FP\ec07010Fp - wo (AFS #4190)         |

### **SUMMARY**

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This report presents the City of Toronto 2007 Budget Committee (BC) Recommended Capital Budget and 2008 - 2011 Capital Plan, and recommends approval of 2007 cash flow and future year commitments for capital projects. Further, the report recommends approval of the 2008 – 2011 Capital Plan, which will form the basis for developing future capital budgets, in accordance with the City’s multi-year financial planning and budgeting process.

The 2007 Budget Committee Recommended Capital Budget and 2008 – 2011 Capital Plan sets the foundation for implementing the Mayor’s vision and mandate, and Council’s policy agenda. It addresses the City’s health and safety, legislated, and state of good repair capital spending needs while recognizing existing fiscal challenges. This is evidenced by the fact that, of the 2007 BC Recommended Tax Supported Capital Budget of \$1.432 billion, 75% or \$1.074 billion is targeted to these three categories of projects. The amount dedicated to these project categories is \$5.344 billion or 80% of the total 5-Year Capital Plan of \$6.704 billion. While priority has been placed on maintaining the City’s infrastructure, the Capital Plan also provides for growth in strategic areas and for service expansion in key Program areas to accommodate service demands and expectations of the public. Included in the 5-Year Capital Plan are investments in projects that contribute to the Mayor’s priorities of making Toronto safer, a clean, green and beautiful city, and transit strategic directions in accordance with Council Official Plan.

Financing the City’s Capital Budget and Plan continues to be a major challenge, particularly because of diminished capital reserves and reduced non-debt funding

sources. As a result, a major influencing factor in developing the 2007 Capital Budget and 2008 – 2011 Capital Plan is the need to manage the City’s debt burden without compromising the state of good repair of existing assets or the health and safety of its citizens. Debt financing totals \$2.594 billion or 39% of the total funding requirement proposed in the 5-Year Capital Plan. However, when the projected debt retirement of \$1.000 billion (or \$200.000 million per year) is taken into account, new debt is approximately \$1.600 billion. Even with this significant investment, there continues to be a *gap* between capital spending needs and affordable funding estimates. This funding gap has resulted in a growing backlog that is estimated at \$1.392 billion at the end of 2011, despite increased spending on infrastructure maintenance. Notwithstanding this gap, the City has made significant strides in limiting the backlog to about 5% of the total estimated asset value of about \$30.000 billion (excluding Toronto Water assets).

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## RECOMMENDATIONS

The Budget Committee (BC) recommends that:

- 1) Council approve the 2007 BC Recommended Tax Supported and Toronto Parking Authority Capital Budget (including 2006 carry forward projects) with a total project cost of \$1.380 billion that requires 2007 cash flow of \$1.747 billion and future year commitments of \$881.296 million in 2008; \$506.245 million in 2009; \$292.108 million in 2010; \$158.228 million in 2011; and \$252.262 million in 2012 - 2016 as detailed below:
  - a) New Cash Flow for:
    - i) new and change in scope projects with a total project cost of \$1.380 billion requiring: 2007 cash flow of \$555.284 million and future year commitments of \$527.677 million in 2008; \$200.044 million in 2009; \$118.955 million in 2010; \$23.198 million in 2011;
    - ii) previously approved projects totalling \$2.119 billion requiring: 2007 cash flow of \$853.813 million and future year commitments of \$353.619 million in 2008; \$306.201 million in 2009; \$173.153 million in 2010, \$135.030 million in 2011 and \$297.627 million in 2012 - 2016;
    - iii) previously approved projects with carry-forward funding from 2005 and prior years requiring 2007 cash flow of \$40.134 million, which forms part of the affordability and requires Council to reaffirm its commitment; and,
  - b) 2006 cash flow for previously approved projects with carry-forward funding from 2006 into 2007 totalling \$298.427 million;
- 2) Council approve financing sources for the 2007 BC Recommended Tax Supported Capital Budget (including 2006 carry forward projects) comprised of: \$252.022 million from Reserves and Reserve Funds; \$124.172 million of Capital from Current funding; \$77.103 million of Developmental Charge funding; \$194.889 million from other sources; \$235.484 million of Provincial Grants and Subsidies; \$230.673 million of Federal Subsidies; and debt of \$605.808 million (inclusive of 2006 carryforward debt funding of \$98.452 million);
- 3) Council approve debenture financing not to exceed \$507 million for the 2007 Tax Supported Capital Budget, for a term of up to, but not exceeding 10 years;
- 4) Council approve new debt service costs of \$17.665 million in 2007 and incremental costs of \$75.442 million in 2008; \$44.087 million in 2009; \$23.555 million in 2010; and, \$12.279 million in 2011, for inclusion in the 2007 and future operating budgets;

- 5) Council consider the operating impacts emanating from approval of the 2007 BC Recommended Capital Budget of \$4.393 million in 2007 and incremental costs of \$9.235 million in 2008; \$6.102 million in 2009; \$3.576 million in 2010; and, \$1.846 million in 2011, for inclusion in the 2007 and future operating budgets;
- 6) Council approve the BC Recommended 2008 – 2011 Capital Plan for the City of Toronto (excluding Toronto Water) comprised of \$1.424 billion in 2008, \$1.427 billion in 2009; \$1.346 billion in 2010; and \$1.192 billion in 2011;
- 7) Council receive for information the 2007 – 2016 Capital Forecast for the City of Toronto (excluding Toronto Water) totalling \$13.506 billion as detailed by Program, Agency, Board and Commission in Appendix 5;
- 8) Council approve the detailed 2007 BC Recommended Capital Budget and 2008 – 2011 Capital Plan Program Recommendations (Appendix 6);
- 9) Council receive the reports, transmittals and communications that are on file with the City Clerk's Office (including Appendix 7 herewith attached) as considered by the Budget Committee at its 2007 Capital Budget review meetings; and,
- 10) Council authorize and direct the appropriate City Officials to take the necessary actions to give effect thereto.

## FINANCIAL IMPLICATIONS

### OVERVIEW

#### *2007 Budget Committee Recommended Capital Budget and 2008 – 2011 Capital Plan*

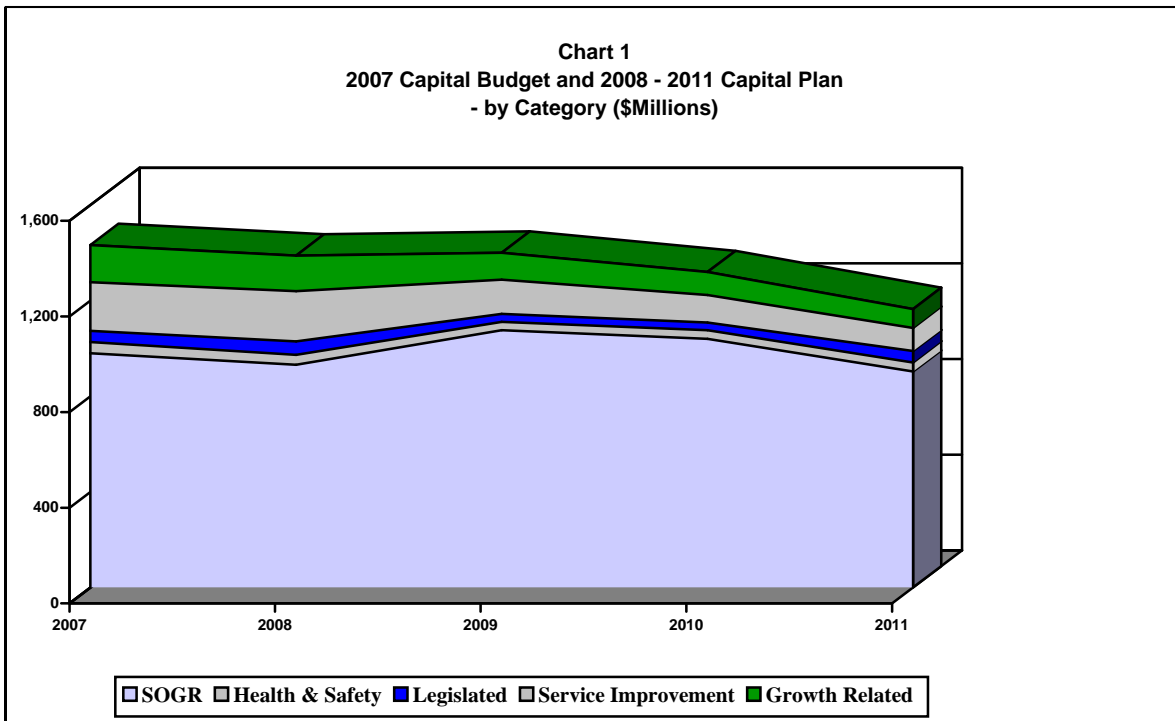
In accordance with approved directions and guidelines, the 2007 Capital Budget and 2008 - 2011 Capital Plan is prioritized within five categories as shown in Table 1 below. This recommended capital budget and plan focuses on maintaining and rehabilitating existing infrastructure in order to protect services that are needed by the citizens of Toronto. As shown in Table 1, \$1.074 billion or 75% of the 2007 BC Recommended Capital Budget of \$1.432 billion is dedicated to maintaining existing assets in good repair (that is, SOGR, Legislated and Health and Safety projects). This trend continues throughout the 5-year term of the Capital Plan as graphically illustrated in Chart 1.

| \$Millions                      |              |              |              |              |              |                 |                 |                  |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|-----------------|-----------------|------------------|
| Expenditures                    | 2007 Budget  | Capital Plan |              |              |              |                 | TOTAL 2007-2011 | Percent of Total |
|                                 |              | 2008         | 2009         | 2010         | 2011         | TOTAL 2008-2011 |                 |                  |
| Health and Safety               | 46           | 42           | 35           | 36           | 38           | 151             | 197             | 2.9%             |
| Legislated                      | 48           | 56           | 33           | 32           | 48           | 169             | 217             | 3.2%             |
| State of Good Repair            | 980          | 931          | 1,076        | 1,040        | 903          | 3,950           | 4,930           | 73.5%            |
| Service Improvement             | 203          | 211          | 144          | 115          | 97           | 567             | 770             | 11.5%            |
| Growth Related                  | 155          | 148          | 112          | 96           | 79           | 435             | 590             | 8.8%             |
| <b>Total Gross Expenditures</b> | <b>1,432</b> | <b>1,388</b> | <b>1,400</b> | <b>1,319</b> | <b>1,165</b> | <b>5,272</b>    | <b>6,704</b>    | <b>100.0%</b>    |
| <b>Funded By:</b>               |              |              |              |              |              |                 |                 |                  |
| Provincial                      | 234          | 224          | 231          | 218          | 159          | 832             | 1,066           | 15.9%            |
| Federal                         | 230          | 250          | 228          | 213          | 207          | 898             | 1,128           | 16.8%            |
| Reserve / Reserve Funds         | 167          | 155          | 134          | 121          | 108          | 518             | 685             | 10.2%            |
| Other                           | 170          | 175          | 115          | 82           | 69           | 441             | 611             | 9.1%             |
| Capital from Current            | 124          | 124          | 124          | 124          | 124          | 496             | 620             | 9.2%             |
| Debt                            | 507          | 460          | 568          | 561          | 498          | 2,087           | 2,594           | 38.7%            |
| <b>Total Funding</b>            | <b>1,432</b> | <b>1,388</b> | <b>1,400</b> | <b>1,319</b> | <b>1,165</b> | <b>5,272</b>    | <b>6,704</b>    | <b>100.0%</b>    |

While the focus has been on infrastructure maintenance, the 5-Year Capital Plan also addresses the need for investments to fulfil the service demands of a growing population and changing priorities. Over the next five years, proposed spending on growth related and service improvement projects of \$1.360 billion, approximate 20% of the total spending is proposed.

Table 1 also shows how the 2007 Capital Budget and 2008 – 2011 Capital Plan will be funded. The other orders of government are expected to fund approximately 33% or \$2.194 billion, primarily for planned transit capital expenditures. While this is a significant improvement from prior years, more is expected from both the provincial and federal governments to enable the City to mitigate the sizable and growing infrastructure

gap – a gap caused by under-investment in key infrastructure which undermines the City of Toronto's competitiveness to remain the economic engine of the province and country. Debt continues to be the largest funding source, totalling \$2.594 billion or approximately 39% of the total funding requirement. Reserves and reserve funding has decreased considerably due to declining contributions. Reserve and reserve funding for the 2007 Capital Budget and 2008 - 2011 Capital Plan total \$0.685 billion or approximately 10% of total funding requirement. Other funding sources total \$611 million includes Development Charges of \$125.514 million and unapplied capital financing of \$51.177 million. Unapplied capital financing refers mainly to unspent funds resulting from completion of projects below budget.



It should be noted that Sections 71-10 and 71-11 of the Financial Control By-law specify (i) that no expenditure shall be made and no account shall be paid by or on behalf of the City, except with Council approval; and (ii) that no commitment shall be made except where cash flow funding has been provided in the ... capital budget to the satisfaction of the Chief Financial Officer”. Therefore, approval of the 2008 – 2011 Capital Plan does not constitute cash flow or spending approval; this is achieved through the approval of the annual capital budget. The 5-Year Capital Plan represents a long-term framework for planning and implementing capital activities, and the basis for developing the annual capital budget.

## Debt Financing

Consistent with prior years, debt is the largest funding source for the 2007 BC Recommended 2007 Capital Budget and 2008 – 2011 Capital Plan. As shown in Table 2, Council approved a debt affordability guideline of \$485 million for 2007 and a total of \$2.216 billion for 2007 – 2011. At the time these debt guidelines were established, it was estimated that, after adjusting for retired debt, the new debt requirement would be \$350 million in 2007 and \$1.541 billion during the five years 2007 – 2011. Over the five-year term of the capital budget and plan, \$791 million or 51% of the new debt guideline has been allocated to the Toronto Transit Commission (see Table 2).

|   | \$Million   |             |             |             |             | Total<br>2007-2011 |
|---|-------------|-------------|-------------|-------------|-------------|--------------------|
|   | 2007        | 2008        | 2009        | 2010        | 2011        |                    |
| <b>Council Approved Debt Guideline:</b> |             |             |             |             |             |                    |
| Baseline Debt<br>(Retire / Reissue)     | 135         | 135         | 135         | 135         | 135         | 675                |
| New Debt:                               |             |             |             |             |             |                    |
| TTC                                     | 200         | 186         | 135         | 135         | 135         | 791                |
| City                                    | 150         | 150         | 150         | 150         | 150         | 750                |
| New (Affordable) Debt                   | <b>350</b>  | <b>336</b>  | <b>285</b>  | <b>285</b>  | <b>285</b>  | <b>1,541</b>       |
| <b>Total Debt Guideline</b>             | <b>485</b>  | <b>471</b>  | <b>420</b>  | <b>420</b>  | <b>420</b>  | <b>2,216</b>       |
| BC Recommended Debt Requirement         | <b>508</b>  | <b>459</b>  | <b>568</b>  | <b>562</b>  | <b>499</b>  | <b>2,596</b>       |
| <b>Over (Under) Debt Guideline</b>      | <b>23</b>   | <b>(12)</b> | <b>148</b>  | <b>142</b>  | <b>79</b>   | <b>380</b>         |
| Less: Additional Retire / Reissue Debt  | <b>(65)</b> | <b>(65)</b> | <b>(65)</b> | <b>(65)</b> | <b>(65)</b> | <b>(325)</b>       |
| <b>Net Over (Under) Debt Guideline</b>  | <b>(42)</b> | <b>(77)</b> | <b>83</b>   | <b>77</b>   | <b>14</b>   | <b>55</b>          |

The 2007 Budget Committee Recommended Capital Budget includes debt of \$507 million, approximately 35% of the total funding requirement; this debt level exceeds the debt guideline by \$23 million and over the five-year period, by \$380 million. It is noted that \$318 million or 84% of the debt over-target amount is attributed to TTC. However, critical and ongoing analysis of the City's substantive infrastructure has confirmed that this level of spending is essential to achieve the long-term goal of keeping the City's assets in a necessary state of good repair.

Further analysis of the City's debt portfolio has determined that retiring debt will average \$200 million per year during the period 2007 - 2011. This is \$65 million per annum greater than the debt retirement forecast that was factored into the debt guidelines approved by Council in June of 2006. In effect, the City can borrow an additional \$325

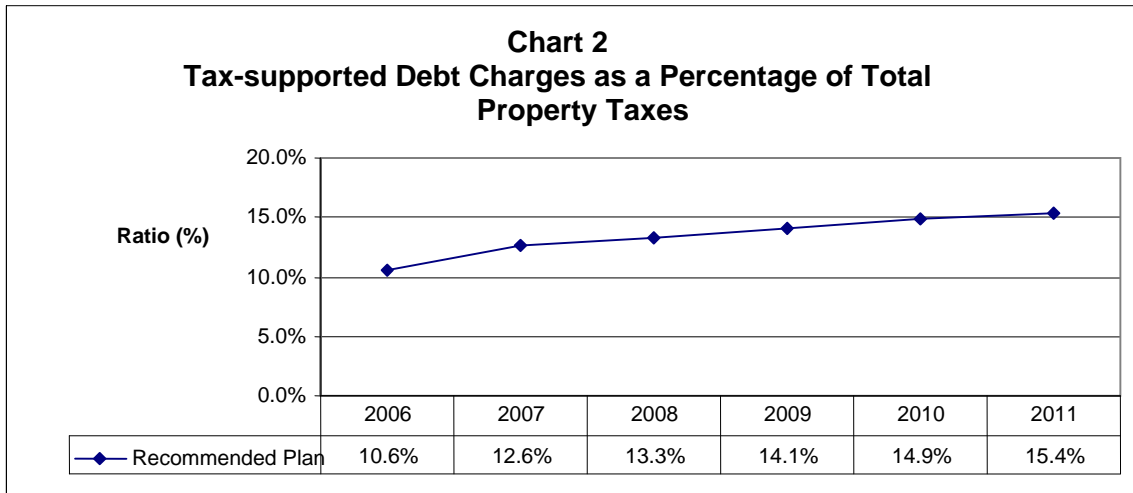
million over the period 2007 – 2011 without changing the new debt guideline, or impairing the City’s favourable credit rating.

Given significant major maintenance backlog and the increasing demand for new investment in growth and service improvement projects, it is proposed that the additional debt funding of \$325 million discussed above be utilized to meet the increased capital spending needs included in the 2007 Budget Committee Recommended Capital Budget and 2008 – 2011 Capital Plan. Thus, the BC Recommended 5-Year Capital Plan is \$55.000 million over the adjusted debt guidelines (see Table 2). This additional debt will be managed annually during the budget process in order to meet the Council guidelines, and will not negatively impact the City’s fiscal position.

***Debt Service Ratio***

At its meeting of June 27-29, 2006 (Policy and Finance Committee, Report 5, Clause 25) Council affirmed that the maximum limit of debt service charges as a percentage of total property tax be established at 15 percent as a benchmark for evaluating capital expenditures levels.

The staff report “Capital Financing and Debenture Authority” which was before the Budget Committee at its meeting of February 8, 2007, confirmed that based on projected debt requirements of the 5-Year Capital Plan, the City's debt service ratio reaches the 15% target in 2011 (see Chart 2). The Capital Plan is based on modest tax revenue growth in line with current assessment growth and inflationary rate increases. However, excluded from the 5-Year Capital Plan is the impact of financing the recent Green Lane landfill purchase.



One reason that the 5-Year Capital Plan will exceed the targeted ratio is that it does not incorporate increases in capital from current funding, even though the debt service ratio target was adopted in concert with a capital from current strategy that would have increased contributions by \$10 million each year. Unfortunately, these increases have not



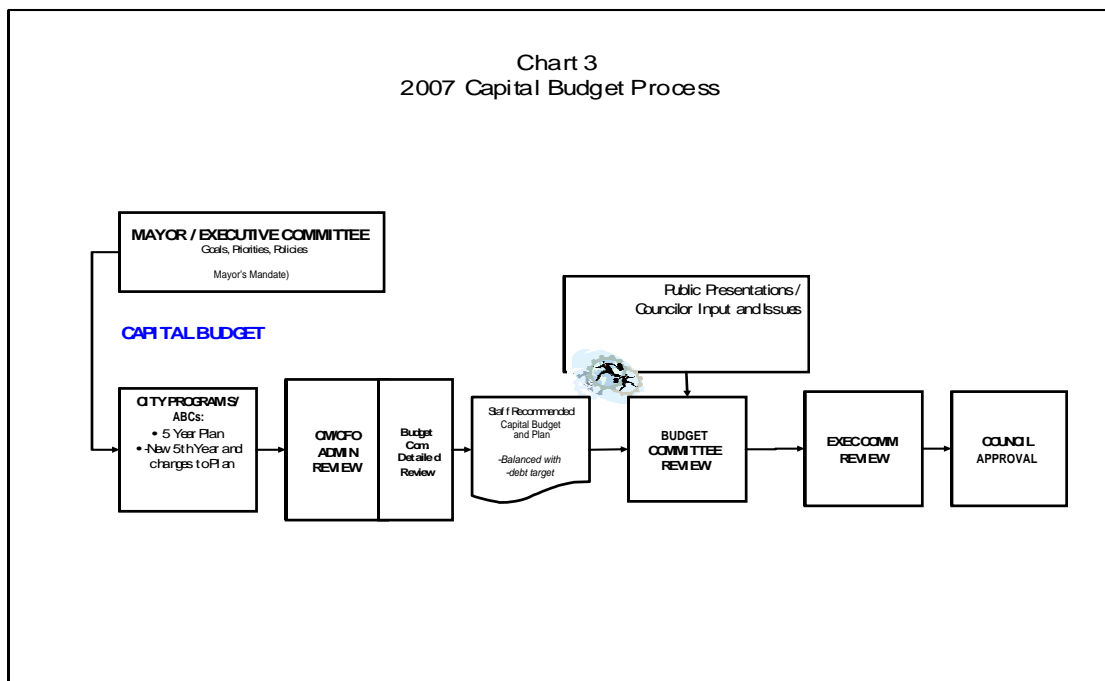
been affordable for inclusion in the operating budget. This situation is unlikely to change until uploading of income redistributive programs, and/or sharing of growth taxes, is achieved, in accordance with the City's multi-year Financial Strategic Plan. Alternatively, the City would have to cut expenditures by an additional \$100 million from the 5-Year Capital Plan.

The Deputy City Manager & Chief Financial Officer confirms that borrowing \$508 million to finance 2007 capital expenditures (i) can be financed by the issuance of debentures with terms that do not exceed 10 years; and, (ii) is within the City's updated Debt and Financial Obligation Limit. The DCM & CFO further confirms that funds are available from the other financing sources.

## COMMENTS

### The 2007 Capital Budget Process

Chart 3 below illustrates the 2007 Capital Budget Process. Of note is that this budget



process is transitional with the Mayor provided budget directions and guidelines. Key elements of this budget process are highlighted below:

- On behalf of the Executive Committee, the Mayor will provide staff with upfront direction to recommend: a balanced capital budget that implements Council's strategic policy agenda by aligning resources to priorities; that is based on sound financial management principles; and, meets budgetary targets;

- Prior to finalizing the recommended budget, the Budget Committee will perform detailed reviews of individual City Program and ABC budgets to ensure that Executive Committee's guidelines and directions were met;
- The Budget Committee, on behalf of the Executive Committee, will hold formal meetings to hear public presentations and to receive input from councillors on any issues they may raise, and if warranted, to recommend amendments to the staff recommended budget;
- The Budget Committee will recommend to the Executive Committee a 5-Year Capital Plan that reflects the strategic alignment of resources to Council priorities; highlights expected results and outcomes; and confirms recommended financial strategies;
- The Executive Committee's review of the budget will focus on major fiscal and policy issues and will confirm the budget as a strategic financial plan that will implement Council policies and priorities; and,
- On behalf of the Executive Committee, the Mayor will present the 2007 Capital Budget and 2008 – 2011 Capital Plan to City Council.

The 2007 process did not include a role for Standing Committees. This will be reinstated in the 2008 budget process. Standing Committees will, early in the year, review City Program and ABC service plans, assess service issues and outcomes to determine service priorities and service levels that will be recommended to Executive Committee *in advance of the budget process*. As well, public consultation will be held upfront to ensure that priorities reflect the needs and expectation of the citizens of Toronto.

In June 2006, Council approved in principle a 2007 – 2010 Capital Plan. This plan fulfilled the need for a long-term financial planning perspective, and development of five-year capital plans in accordance with directions toward more strategic financial management and decision making. The 2007 Capital Budget and 2008 – 2011 Capital Plan was developed by adding, a new fifth year (2011) and, where warranted, made changes that reflect more current information and assumptions.

To ensure the integrity of the 5-Year Capital Plan, projects have been firmly placed in the year in which they will be implemented or developed; and, the funding requirements must not change without approval. Some flexibility is provided by enabling acceleration or deferral of projects but only with the approval of Council. Furthermore, it must be ensured that any change in funding associated with acceleration or deferral of a project in any year, must be fully offset by shifting another project or projects with equal value.

## **City Manager and Deputy City Manager & Chief Financial Officer Review**

To ensure compliance with capital and financial policies, Council guidelines and direction, and achievement of debt targets, the City Manager (CM) and Deputy City Manager and Chief Financial Officer (DCM & CFO) reviewed the capital plan submissions from City Programs and ABCs and recommended a balanced 5-Year Capital Plan to the Budget Committee. The CM and DCM-CFO reviews focussed on the following:

- The extent to which assigned targets were met;
- Whether the capital plans achieved the objective of maintaining existing assets in a state of good repair (SOGR) while ensuring that reasonable service improvement and growth demands that achieve Council's priorities were addressed;
- The impact on SOGR backlog and risks associated with the delayed maintenance of the City's aging infrastructure;
- Major assumptions and rationale used to determine whether projects included in the capital plan were based on existing Council commitments, needs analysis, effective scheduling, and ability to spend;
- The extent to which projects included in the Capital Plan were ready to proceed;
- The degree to which cost shared partnerships had been explored in order to leverage capital program spending; and,
- Major challenges or impairment to achieving services and / or service levels.

In general, City Programs and ABCs exercised due diligence in developing their Capital Plans. Despite major capital spending needs, most achieved their debt and CFC targets, and, where necessary, invested in service improvement and expansion projects in order to satisfy growth demands without compromising health and safety. Nonetheless, some challenges continue to exist: SOGR backlog will increase by about \$300 million from 2007 to 2011; there continues to be unmet service improvement needs; and the Solid Waste Management Diversion Strategy is expected to introduce additional funding pressures.

### **2007 Budget Committee Recommended Capital Budget and 2008 – 2011 Capital Plan**

The 2007 Budget Committee Recommended Capital Budget and 2008 – 2011 Capital Plan complies with the Mayor's guidelines and Council's policy agenda. It gives priority to projects that protect the health and safety of citizens, are legislated requirements, and those that maintain the City's infrastructure and capital assets in a state of good repair (SOGR). Balancing the capital spending demands of maintaining the City's massive and aging infrastructure against the growing demand for new investments to achieve emergent priorities was a challenge. However, this Capital Budget and Plan strategically addresses these competing demands.

The recommended Capital Budget and Plan achieves the following objectives:

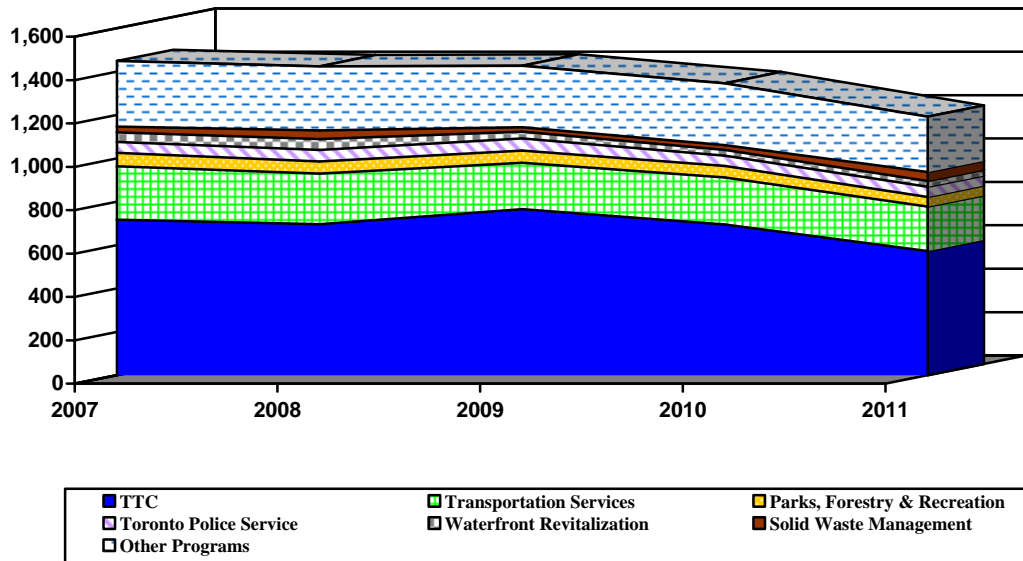
- It focuses spending on maintaining and protecting the City's infrastructure in order to ensure that services demanded by the citizens of Toronto are delivered.
- It slows down the rate of growth of the state of good repair backlog or deferred maintenance challenge. This 5-year Capital Plan discloses that, due to the fiscal imbalance, the City is facing an infrastructure maintenance deficit that is impairing its ability to achieve its state of good repair goal.
- It aligns new investments to the Mayor's mandate and Council's policy agenda, and despite demands for SOGR spending, this capital budget and plan includes strategic spending on key priorities, such as making a safe city safer, building a clean, green and beautiful waterfront, and making Toronto a transit city.
- With recommended adjustments, it meets Council approved 2007 – 2011 affordable debt and capital from current (CFC) guidelines.

The 2007 Budget Committee Recommended Tax Supported Capital Budget and 2008 – 2011 Capital Plan totals \$6.704 billion as shown in Table 3. Of this amount, \$3.444 billion or 51% is allotted to the Toronto Transit Commission while the balance of 49% is allocated to all other City Programs and ABCs.

| Table 3   |                  |                  |                  |                  |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| 2007 CAPITAL BUDGET AND 2008 - 2011 CAPITAL PLAN              |                  |                  |                  |                  |                  |                  |                  |                  |
| Commitments and Estimates (in \$000)                          |                  |                  |                  |                  |                  |                  |                  |                  |
|   | Approved 2006    | 2007 Budget      | Capital Plan     |                  |                  |                  |                  | 2007 - 2011      |
|   |                  |                  | 2008             | 2009             | 2010             | 2011             | 2008 - 2011      |                  |
| Citizen Centred Services "A"                                  | 103,425          | 113,600          | 96,702           | 94,739           | 92,283           | 79,269           | 362,993          | 476,593          |
| Citizen Centred Services "B"                                  | 295,858          | 336,716          | 344,068          | 281,999          | 281,863          | 284,727          | 1,192,657        | 1,529,373        |
| Internal Services   | 124,678          | 117,560          | 109,666          | 100,657          | 98,943           | 89,947           | 399,213          | 516,773          |
| Other City Programs   | 19,822           | 11,383           | 8,240            | 3,498            | 1,507            | 1,430            | 14,675           | 26,058           |
| Other Corporate Priorities                                    |                  | 22,536           | 21,420           | 35,759           | 36,006           | 19,614           | 112,799          | 135,335          |
| Agencies Boards and Commissions - Excl. TTC                   | 81,341           | 112,450          | 111,857          | 118,906          | 113,891          | 118,305          | 462,959          | 575,409          |
| <b>Total Tax Supported Programs (Excl. Transit &amp; TPA)</b> | <b>625,124</b>   | <b>714,245</b>   | <b>691,953</b>   | <b>635,558</b>   | <b>624,493</b>   | <b>593,292</b>   | <b>2,545,296</b> | <b>3,259,541</b> |
| Toronto Transit Commission                                    | 385,605          | 717,304          | 696,413          | 764,664          | 694,171          | 571,490          | 2,726,738        | 3,444,042        |
| <b>Total Tax Supported Programs (Incl. Transit &amp; TPA)</b> | <b>1,010,729</b> | <b>1,431,549</b> | <b>1,388,366</b> | <b>1,400,222</b> | <b>1,318,664</b> | <b>1,164,782</b> | <b>5,272,034</b> | <b>6,703,583</b> |
| Toronto Parking Authority                                     | 24,191           | 17,681           | 35,934           | 26,350           | 27,100           | 27,000           | 116,384          | 134,065          |
| <b>Total City</b>   | <b>1,034,920</b> | <b>1,449,230</b> | <b>1,424,300</b> | <b>1,426,572</b> | <b>1,345,764</b> | <b>1,191,782</b> | <b>5,388,418</b> | <b>6,837,648</b> |

Chart 4 graphically illustrates the recommended allocations to major City Program areas over the term of the capital budget and plan. Quite evident is the significant investment being made in transit consistently over the term of the capital plan.

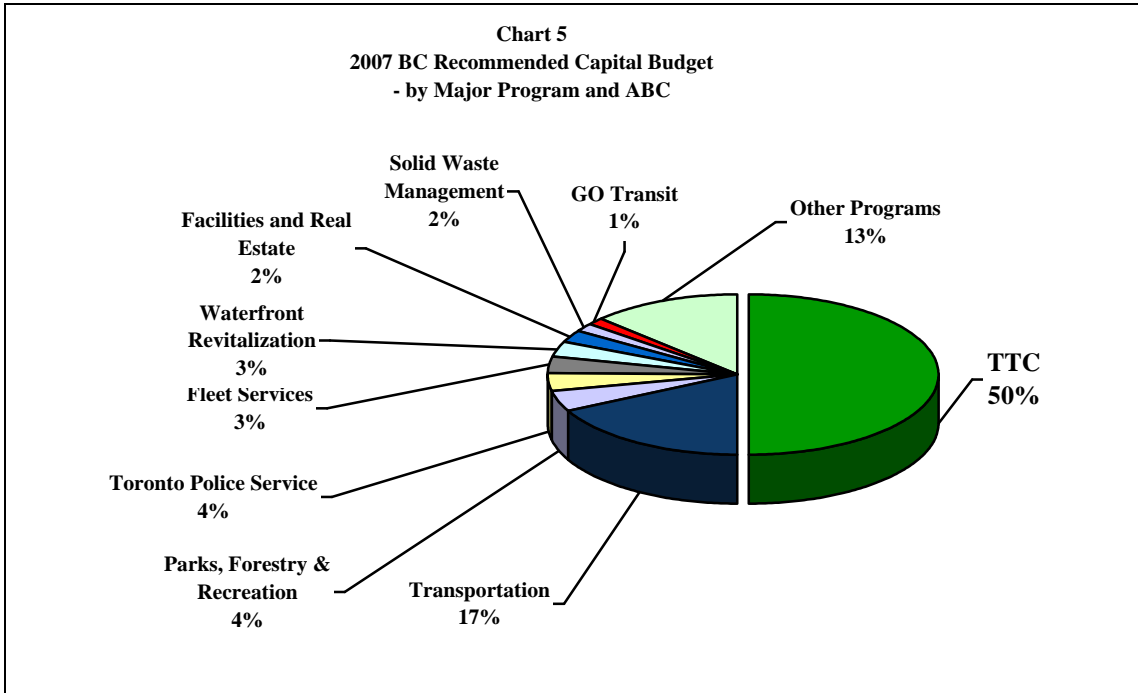
**Chart 4**  
**5-Year Capital Budget and Plan (\$Millions)**  
**- 51% Allocated to TTC**



Transportation Services is the second largest capital program. In total, \$1.117 billion representing approximately 16% of the total Capital Plan is allocated to this program. Together, TTC and Transportation Services make up well over two-thirds of the 2007 Budget Committee Recommended Budget and 2008 – 2011 Capital Plan. The 2007 Budget Committee Recommended Capital Budget and 2008 – 2011 Capital Plan for the Toronto Parking Authority totals \$134.065 million (see Table 3).

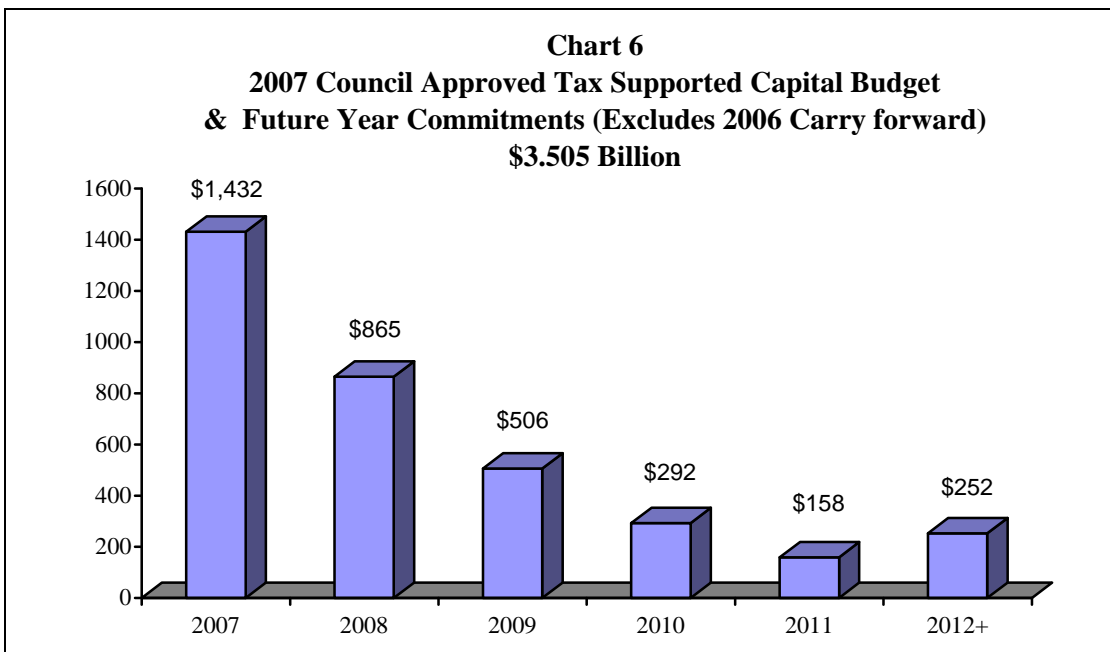
**2007 Tax Supported Capital Budget by Major Program**

Chart 5 below illustrates the 2007 BC Recommended Tax Supported Capital Budget of \$1.432 billion by major Program and ABC. Note the similarity between the five-year allocation above and the 2007 Capital Budget, wherein TTC represents 50% or \$717.304 million of the total Tax Supported Capital Budget, followed by the 17% allocated to Transportation Services.



### 2007 Capital Budget and Future Year Commitments

As outlined in Chart 6 below, approval of the 2007 BC Recommended Tax Supported Capital Budget will require the following total cash flow (excluding 2006 carry-forward projects) for 2007 and associated future year commitments: \$1.432 billion in 2007; \$865.813 million in 2008; \$506.245 million in 2009; \$292.108 million in 2010; \$158.228 million in 2011 and \$252.262 million in 2012 and beyond, for a total of \$3.505 billion (see Appendix 2).



## 2007 Recommended Capital Budget Including Carry Forward Funding

In accordance with the City's Carry Forward Funding Policy, financing to continue work on 2006 projects that were not completed as planned require Council approval and are included in the 2007 recommended cash flow. The key elements of this policy are as follows:

A capital carry forward project is a previously approved project for which the desired outcome has not been achieved or capital work was not completed on schedule and the associated cash flow budget was not fully spent in the year of approval and the unspent amount, or a portion thereof, is required in future years to complete the project.

Cash flow funding approval will continue to exist for *one fiscal year* in addition to the year in which the project / sub-project was approved. In effect, City Programs and ABCs will be allowed to carry forward unspent funds for capital projects / sub-projects for a period of one year subsequent to the year of original approval, after which they become part of the debt target.

In accordance with the Council-Approved Carry Forward Policy, cash flow requirements for 2006 capital projects that were not completed as planned and for which work must continue in 2007 totals \$289 million. In summary, the 2007 Cash Flow totals \$1.720 million is comprised of the following: 2006 Carry Forward projects of \$289 million; New and Change in Scope projects of \$540 million; and, Previously Approved projects of \$891 million (see Table 4).

| Programs / ABCs   | 2006 Council<br>Approved Cash<br>Flow | 2007 Rec'd Cash Flow             |   |                                    |                        | Total 2007<br>Cash Flow |
|---|---------------------------------------|----------------------------------|---|------------------------------------|------------------------|-------------------------|
|   |                                       | 2006 Carry<br>Forward<br>Funding | 2007 Capital Budget                       |                                    |                        |                         |
|   |                                       |                                  | New and<br>Change in<br>Scope<br>Projects | Previously<br>Approved<br>Projects | 2007 Capital<br>Budget |                         |
| City Operations   | 722                                   | 256                              | 344                                       | 257                                | 601                    | 857                     |
| Special Purpose Bodies<br>- before Transit and TPA        | 108                                   | 33                               | 56  | 33                                 | 89                     | 122                     |
| <b>Tax Supported Program Before<br/>Transit &amp; TPA</b> | <b>830</b>                            | <b>289</b>                       | <b>400</b>                                | <b>290</b>                         | <b>690</b>             | <b>979</b>              |
| Toronto Transit Commission                                | 553                                   |                                  | 117                                       | 601                                | 718                    | 718                     |
| GO Transit  | 20                                    |                                  | 20  |                                    | 20                     | 20                      |
| Toronto Port Authority                                    | 3                                     |                                  | 3   |                                    | 3                      | 3                       |
| Total - Transit & TPA                                     | 576                                   | -                                | 140                                       | 601                                | 741                    | 741                     |
| <b>Total - Tax Supported Program</b>                      | <b>1,406</b>                          | <b>289</b>                       | <b>540</b>                                | <b>891</b>                         | <b>1,431</b>           | <b>1,720</b>            |

## What's in the 2007 Capital Budget – Project Highlights

Following are highlights of projects included in the 2007 Capital Budget. These projects are listed under key themes, with indication of the project deliverable/outcome, delivery date, project cost and 2007 cash flow.

### Public Spaces

*Investment in public spaces is crucial to ensuring that parks, streets, squares and other shared common spaces are well designed, developed and maintained, clean and beautiful for the general betterment and wellness of the community. This Capital Budget includes significant investments in common spaces by including projects that will:*

- Begin revitalization of Nathan Phillips Square (2007 cash flow \$1.550M which represents the start of a \$16.000M project)
- Construct a south entrance to Union Station and undertake environmental assessments for the creation of a northwest PATH (project totals \$6.428M; 2007 cash flow \$3.334M)
- Start development of mixed-use, transit-friendly communities East Bayfront and West Donlands plus parks on the Waterfront (\$44.310M)
- Green the Parkland portion of Wychwood Barns site (\$1.515M)
- Complete Year 2 of the \$3M project to restore the St. Lawrence Centre for the Arts façade and interior (\$1.065M)
- Remediate the Don Valley Brickworks site to support the Evergreen Development (\$0.880M)
- Continue restoration work of Casa Loma exterior, 2007 phase (\$4.113M)
- Continue the Todmorden Museum and Arts Centre Restoration, 2007 (\$0.380M)
- Improve Public Spaces in BIAs areas across the City (\$5.010M)
- Begin Bloor Street transformation road and pedestrian improvements from Church to Avenue Road

### Environment

*City Council has recognized the need to spend on projects that would set the stage for environmental improvement, while achieving the City's infrastructure maintenance and development objectives. The 2007 Capital Budget invests in projects that will:*

- Convert conventional cooling at Old City Hall to Deep Lake Water Cooling System (project costs \$3.270M; 2007 cash flow \$0.545M)
- Continue carbon dioxide and energy reduction projects for City Arenas, Fire Stations, Pools, Community Centres and Solid Waste Transfer Stations and Police Service



Buildings (2007 cash flow \$7.103M for completion of Phase 1, approved at a total cost of \$20.000M, and start up of the Phase 2 projects approved at a total cost of \$9.000M)

- Continue its Green Fleet Initiative to lower emissions and save fuel, using innovative greener technology (project costs \$0.420M; 2007 cash flow \$0.420M – ongoing program)
- Introduce traffic calming measures and bicycle lanes on various streets throughout the City (\$3.000M)
- Begin the purchase of new larger recycling carts for City households, begin the plan to create a network of new Reuse Centres; and continue Environmental Assessment looking at options to divert Source Separated Organics (SSO), and waste left over after diversion (\$13.500M)
- Continue Parks, Forestry & Recreation Bike Plan development in trails and parkland, including the CP PS Right of Way (\$2.435M)

### **Improved Public Service**

*One of the Mayor's visions is to work with people - to get results for people. To provide residents with direct and simple access to City staff and services, the capital budget and plan includes projects that will:*

- Begin to implement 3-1-1 technology to give citizens one number to contact the City for general information or to request non-emergency City services (2007 cash flow \$11.311M; this represents funding for work on several functional components of this Program which was approved at a total project cost of \$26.912M))
- Provide continuity in the City's ability to operate (data centre, systems) should a disaster strike (\$1.100M)
- Improve the City's website to make it more user-friendly (project costs \$3.506M; 2007 cash flow \$1.123M)
- Complete a new on-line licensing system that allows the public to initiate and renew their animal licenses/registrations each year over the web and pay by credit card (\$0.364M)
- Develop new external web based system for clients and community partners to access the Ontario Works program (\$1.200M)

### **Community and Recreation Services**

*The City offers programs and services that improve the quality of live of all its citizens, and ensures opportunity for all. To contribute to the Community and Services goals the capital budget and plan includes projects that will:*

- Increase SOGR funding for Homes for the Aged facilities to ensure a safe and comfortable living environment is provided for long-term care residents (\$10.800M)
- Begin construction of the expanded facilities in the Thorncliffe Park Neighbourhood as follows: \$2.500 million library expansion (\$0.734 million); \$1.849 million Child Care Centre (\$1.223 million); and, \$4.250 million Jenner Jean-Marie Community Centre expansion (\$4.250 million)
- Begin construction totalling \$10.868 million to add 132 new and replacement shelter beds: replacement of Eva's Youth Shelter (32 beds) (\$2.870 million), the new Bethlehem United Shelter (60 beds) (\$3.215 million) and the relocation of 110 Edward Street Shelter and Referral Centre (40 beds) (\$5.501 million).
- Implement a new national Public Health Surveillance and Management System to maintain public immunization records and other public health information (\$2.500M)
- Continue the previously approved renovation projects to expand both the Jane/Sheppard Neighbourhood (\$0.638 million) and Bloor/Gladstone District (\$1.847 million) libraries
- Upgrade Flemingdon Park to include 2 new junior soccer and 12 children mini soccer pitches; rebuild two ball diamonds and cricket pitches; and park improvements for completion in 2007 and 2008 (\$1.600 million)
- Add 4 new waterplay/splash pad projects, three of which are in a Priority Neighbourhood (\$1.760 million)

## **Public Works & Infrastructure**

*The City has a massive and aging infrastructure which has to be managed effectively to ensure that the services required by its citizens continue to be provided. The 2007 Capital Budget contributes to an effective road network to support delivery of an expansive transportation program; the management of solid waste in an environmentally friendly manner and the general provision of core municipal services. The 2007 Recommended funding will:*

- Maintain 124 kms of roads, rehabilitate 16 bridges and structures in a safe and hazard-free state and to minimize life cycle costs of the assets. (\$127.264M)
- Increase transportation service, safety and capacity – by replacing streetcar track, the North Yonge Centre Service Road, St. Clair Ave. West and the Simcoe Street Underpass (\$75.225M)
- Complete Morningside Avenue/Finch Avenue East grade separation to improve safety and reduce delays to traffic at the railway crossing. (\$12.959M)
- Construct an underpass to eliminate the Dufferin Street Jog creating a regular intersection to facilitate existing and future area traffic operations (\$12.941M)

## **Public Safety and Emergency Services**

*Quality and effective emergency services and public safety is a major demand of the citizens of Toronto. The 2007 Capital Budget includes projects that will:*

- Improve public security at Union Station - this project will be 75% funded by the Federal Government (project costs \$5.707M; 2007 cash flow \$3.995M)
- Complete a new fire station on Sheppard between Leslie/Bayview to provide improved service and response time in this area (\$2.586M)
- Begin construction of the new Police training facility in 2007 (\$25.929M), with construction to be completed in 2009 (\$76M)
- Purchase land and start design in 2007 to provide 14 Division with a new police station by 2010 (\$6.264M)
- Identify/purchase land in 2007 to provide 11 Division with a new police station by 2011 (\$5.500M)
- Begin planning to replace radio communication between Emergency Medical Services, Police Services, and Fire Services (\$0.25M)

## **Transit**

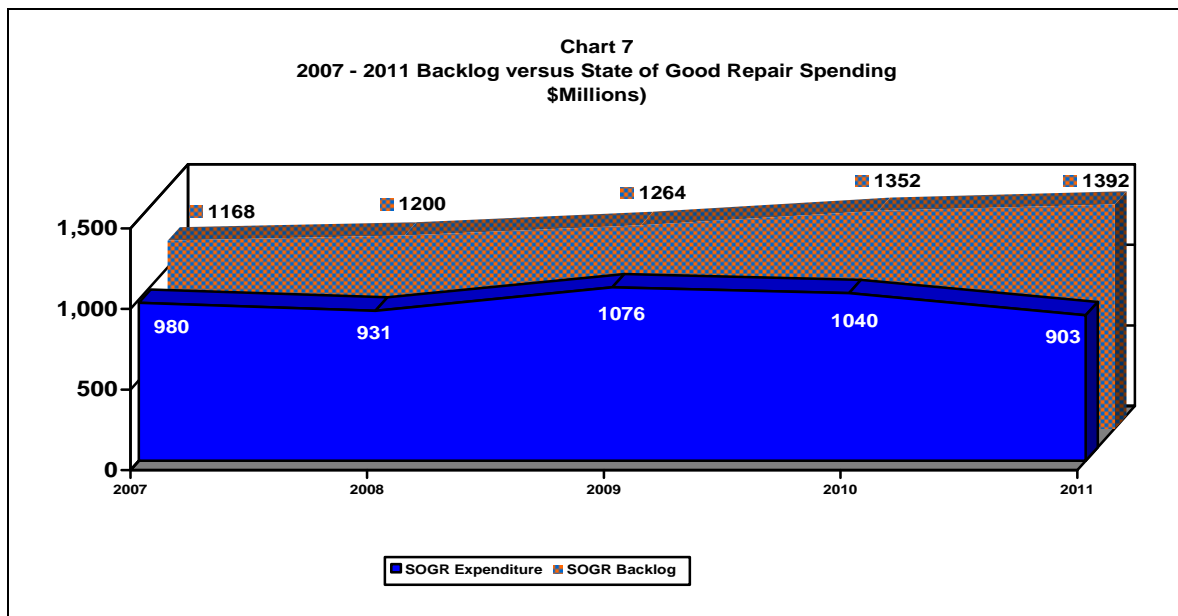
*A major priority of the Mayor is to make Toronto a city that moves people by transit. The goal to have a comprehensive network of dedicated transit routes that move people quickly, efficiently and affordably through all parts of the city is addressed by projects that will:*

- Begin design work for the purchase of 204 low floor accessible Light Rail Vehicles to replace existing streetcar fleet plus 21 growth cars with delivery to start in 2010 (\$0.600M)
- Deliver 220 new replacement buses plus 100 buses for expanded service - Ridership Growth Strategy (\$222.054M) for a total of 1225 new buses to be purchased by 2016
- Purchase 234 new subway cars (39 train sets) to replace existing subway cars which will also increase capacity by 8% (\$ 103.676M)
- Start development of an interregional bus terminal which will be shared with GO Transit and Mississauga Transit (\$9.844M)
- Complete the Mount Dennis 250-bus garage in the fall of 2007 to house added TTC fleet (\$30.842M)
- Continue St. Clair West dedicated transit way, to be completed in 2008 (\$19.805M)
- Begin development of two Bus Rapid Transit ways (BRTs): one from Downsview to York University; the other via Yonge Street from Finch station to Steeles Ave (\$8.614M)
- Make York Mills, St. Clair and Lawrence West subway stations accessible (\$8.330M)

- Replace more than 30,000 double track feet of surface rail with a focus on Fleet St., Dundas St. West, Queensway at Bloor and Oakwood loops (\$44.541M)
- Install state-of-the-art signalling systems on the Yonge-University-Spadina subway line and safety upgrades (\$64.724M)

### State of Good Repair Backlog

A major objective of the 2007 Budget Committee Recommended Capital Budget and 2008 – 2011 Capital Plan is to mitigate any significant increase in state of good repair backlog. However, despite substantive investments on projects that maintain and renew the City’s infrastructure, the accumulated infrastructure maintenance backlog continues to grow, albeit at a slower rate than in the past. As evident in Chart 7 below, SOGR spending averages \$1.000 billion per annum during the five years 2007 – 2001. However, during that same period SOGR backlog will increase by \$224.000 million (from \$1.168 billion in 2007 to \$1.392 billion at the end of 2011).



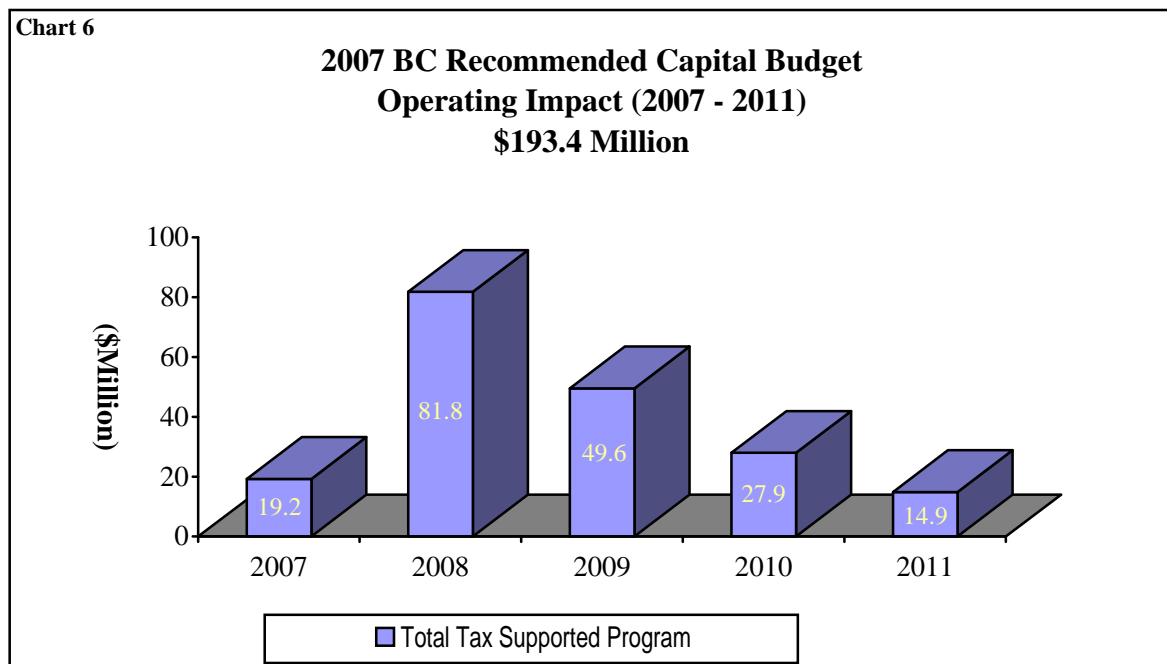
### Incremental Impact on the City’s Operating Budget

The operating impact of capital projects is identified as part of the capital budget development and review process. Prior to recommending a capital project for Council approval, any incremental cost impact on the operating budget over the life of each project is evaluated. The objective of this evaluation is to ensure that operating cost increase associated with the capital budget and plan is affordable, and to factor these cost increases in the annual operating budget and forecasts.

- i. Principal repayment and/or interest payments on debt issued to finance the capital program;

- ii. Increased operating costs such as those required for new or expanded facilities;
- iii. Efficiency savings from investments that reduce operating costs; and,
- iv. Direct contributions to Capital from the Operating Fund which reduce the annual borrowing requirements.

The incremental impact (including debt services charges) of approving the 2007 BC Recommended Capital Budget on the Operating Budget during the period 2007 – 2011 totals \$193.413 million. Annual impacts range from a high of \$81.789 million in 2008 to a low of \$14.870 million in 2011. Program costs will be included in the operating budget of individual programs and ABCs and are driven mainly by the TTC operating impacts. Debt service costs will be included in the City’s Capital and Corporate Financing accounts in Non-Program.



## CONTACTS

Josie La Vita  
 Director, Financial Planning Division  
 Phone: 416-397-4229  
 Fax: 416-397-4465  
 Email: jlavita@toronto.ca

Bert Riviere  
 Manager, Financial Planning  
 Phone: 416-397-4227  
 Fax: 416-397-4465  
 Email: briviere@toronto.ca

## SIGNATURE

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Shirley Hoy  
 City Manager

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Joseph P. Pennachetti  
 Deputy City Manager & Chief Financial Officer

## **ATTACHMENTS**

|                 |   |
|-----------------|---|
| Appendix 1      | 2007 Capital Budget and Future Year Commitments – Including 2006 Carry Forward      |
| Appendix 2      | 2007 Capital Budget and Future Year Commitments – Excluding 2006 Carry Forward      |
| Appendix 3      | 2007 Capital Budget by Program and Financing Sources – Excluding 2006 Carry Forward |
| Appendix 4 (i)  | 2007 Capital Budget and 2008 – 2011 Capital Plan                                    |
| Appendix 4 (ii) | 2007 Capital Budget and 2008 – 2011 Capital Plan by Financing Sources               |
| Appendix 5      | 2007 Capital Budget and 2008 – 2016 Forecast  |
| Appendix 6      | Program Recommendations   |
| Appendix 7      | City Clerks Office Reports, Transmittals and Communications                         |