

**Analyst Briefing Notes
Budget Committee
(October 30, 2008)**

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PART I: CAPITAL PROGRAM**Executive Summary**

- The 2008 Approved Capital Budget of \$61.365 million was 40% spent as at June 30, 2008. Actual expenditures by year-end are anticipated to be \$46.040 million, or 75% of the 2008 Approved Budget. This projected under expenditure is primarily due to the delay in the procurement of pick-up trucks in anticipation of the release of new 2009 full hybrid pick-up truck specifications. In addition, Fleet Services provided priority assistance to client divisions in acquiring brand new additions to their fleet funded from their own capital programs totalling \$11.800 million, and as a result, this delayed some of Fleet Services replacement programs.
- The 2009 Recommended Capital Budget; 2010 to 2013 Recommended Plan and 2014 to 2018 Proposed Capital Forecast total \$487.899 million of which \$252.597 million is projected for the Program's 5-Year Capital Plan, and \$235.302 million for the 2014 to 2018 Capital Forecast. The 10-Year Capital Plan and Forecast will be fully funded from the Vehicle Reserves.
- The 5-Year Recommended Capital Plan requires cash flows of \$56.944 million in 2009, \$49.599 million in 2010, \$44.751 million in 2011, \$47.263 million in 2012, and \$62.507 million in 2013.
 - The 2009 Recommended Capital Budget is \$56.944 million, and includes funding for 2007 and prior year projects carried forward into 2009 of \$6.782 million, funding carried forward from 2008 into 2009 of \$8.467 million, previously approved funding of \$19.809 million, and new funding of \$21.886 million.
 - The 2009 Recommended Capital Budget includes future year commitments of \$9.373 million for 2010. This is the required cash flow for expected delivery of vehicles in 2010.
- The 2009 Recommended Capital Budget of \$56.944 million provides funds for: State-of-Good-Repair projects (95.0%), Service Improvement projects (4.0%), and Legislated projects (1.0%):
 - State of Good Repair projects totalling \$45.700 million are for the replacement of vehicles and equipment for Fleet Services' client Divisions.
 - Service Improvement projects include:
 - Fuel Sites Closure (\$1.950 million)
 - Fleet Management System & Fuel System Integration (\$0.145 million)
 - Legislated projects include:
 - Green Fleet Plan (\$0.899 million).

- The Recommended 2009 Capital Budget is primarily comprised of funding to maintain the state of good repair of the City's fleet utilized by various City Programs. In 2009, the Capital Budget will fund the replacement of vehicles for:
 - Parks, Forestry and Recreation in the amount of \$6.671 million;
 - Solid Waste Management in the amount of \$12.266 million;
 - Transportation Services in the amount of \$6.642 million;
 - Emergency Medical Services in the amount of \$6.998 million; and,
 - Fire Services in the amount of \$8.557 million.

These Programs represent the majority of the City's fleet. In addition, \$0.899 million is provided for the continuation of the Green Fleet initiatives to lower emissions by taking advantage of innovative greener technology. This is aligned with the City's strategic priorities for a "Greener City." Action to close out fuel sites as identified in the fuel sites review will continue in 2009 at a cost of \$1.950 million.

- Funding for the Recommended 5-Year Capital Plan reduces the current state of good repair backlog by approximately \$6.000 million annually. At the end of the 5 year time frame, backlog will be reduced by 85.6% or \$30.000 million to \$5.024 million. The backlog will be eliminated in 2014.

Recommendations

The City Manager and Acting Chief Financial Officer recommend that:

1. Council approve the 2009 Recommended Capital Budget for Fleet Services with a total project cost of \$30.867 million and a 2009 cash flow of \$56.944 million and future year commitments of \$9.373 million comprised of the following:
 - a) New Cash Flow Funding for:
 - i) 19 new sub-projects with a 2009 total project cost of \$30.867 million that requires cash flow of \$21.886 million in 2009 and a future year commitment of \$8.981 million in 2009;
 - ii) 6 previously approved sub-projects with a 2009 cash flow of \$19.809 million, and a future year commitment of \$0.392 million in 2010;
 - iii) 20 sub-projects from previously approved projects with carry forward funding from 2007 and prior years requiring 2009 cash flow of \$6.782 million that requires Council to reaffirm its commitment; and
 - b) 2008 approved cash flow for 15 previously approved sub-projects with carry forward funding from 2008 into 2009 totalling \$8.467 million;
2. Council approve the 2010 to 2013 Capital Plan for Fleet Services totalling \$194.747 million in project estimates, comprised of \$40.226 million in 2010; \$44.751 million in 2011; \$47.263 million in 2012, and \$62.507 million in 2013;
3. Council approve in principle the 2014 to 2018 Capital Forecast for Fleet Services totalling \$235.302 million in project estimates, comprised of \$46.813 million in 2014, \$51.370 million in 2015, \$46.432 million in 2016, \$47.865 million in 2017, and \$42.822 million in 2018; and that this forecast be used as a foundation for preparing a firm 2010 to 2019 Capital Plan and Forecast as part of the 2010 Capital Budget process; and,
4. the 2009 Recommended Capital Budget for Fleet Services be adjusted to agree with Programs' 2009 budgeted contributions to the Vehicles Reserves to reflect any changes to the recommended contributions that may occur during the Operating Budgets review, and the funding availability of the Divisions' vehicle reserve account.

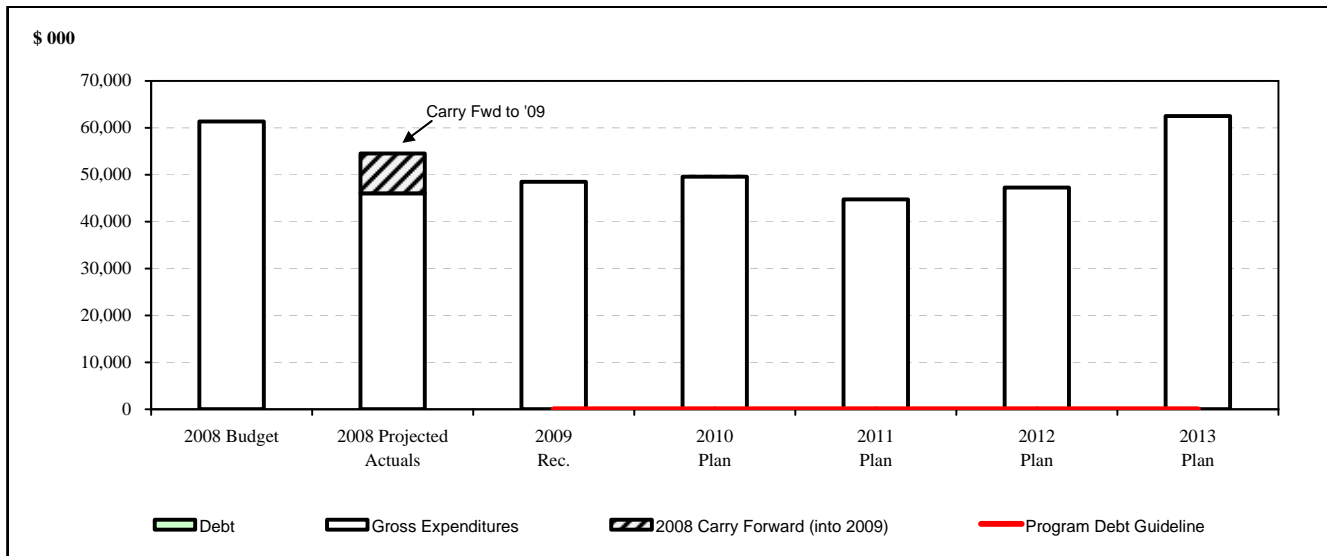
2008 Capital Variance Review

2008 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2008 Approved	Actuals as of June 30 (2nd Qtr Variance)		Projected Actuals at Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
61,365	24,390	39.7%	46,040	75.0%	15,325

Comments / Issues:

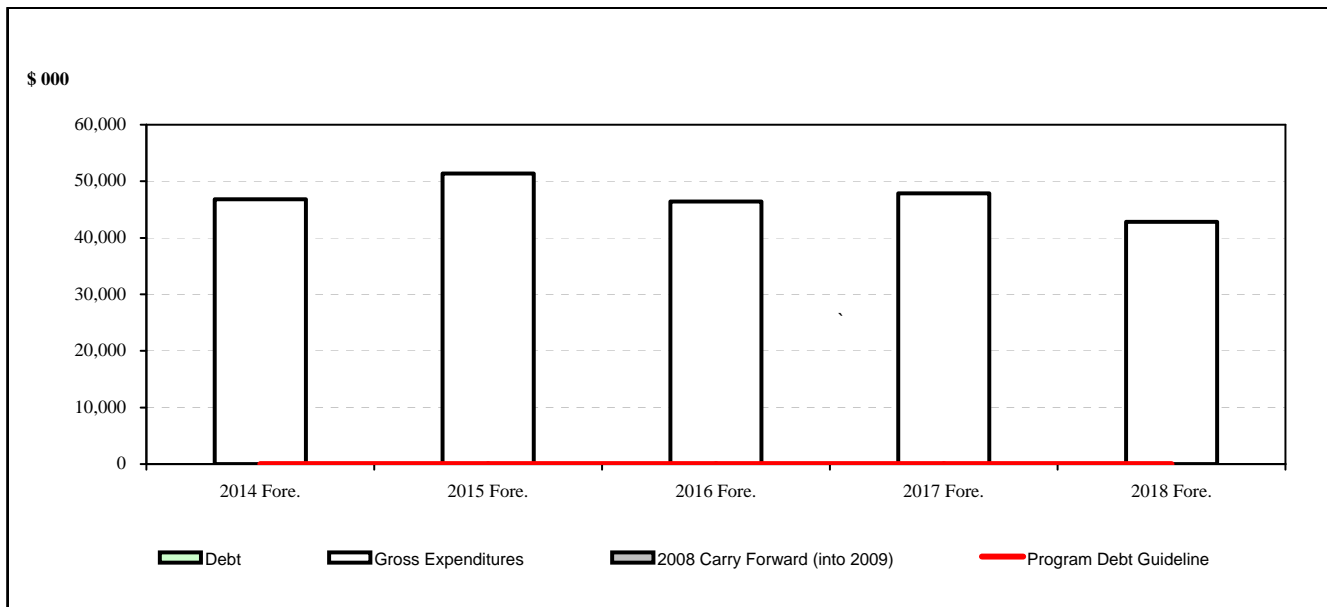
- At the end of the 2nd quarter, Fleet Services spent \$24.390 million or 39.7% of its 2008 Approved Capital Budget of \$61.365 million.
- Fleet Services’ projected year-end spending is expected to be \$46.040 million or 75.0% in its June 30, 2008 Variance Report. This represents an improvement over the 59.5% spending rate achieved in 2007.
- The projected under spending of \$15.325 million is mainly due to:
 - Priority was given to the procurement process of vehicle and equipment purchases totalling \$11.800 million that were funded by other Programs’ capital budgets (Transportation, Solid Waste Management, Toronto Water, and Parks, Forestry and Recreation) that is not part of the replacement capital in Fleet Services. As a result, Fleet’s staff time was diverted from their own procurement for replacement of vehicles funded by Fleet Services’ Capital Budget.
 - Delay in the procurement of pick-up trucks, in anticipation of the release of new 2009 full hybrid pick-up truck specifications.

5-Year Capital Plan (2009-2013)



	2008		5-Year Capital Plan					2009-2013	5-Year Total Percent
	Budget	Projected Actual	2009	2010	2011	2012	2013		
	Gross Expenditures:								
2008 Capital Budget & Future Year Commitments	61,365	46,040	16,459					16,459	
Recommended Changes to Commitments			3,350					3,350	
2009 New/Change in Scope and Future Year Commitments			28,668	9,373				38,041	
2010 - 2013 Capital Plan Estimates				40,226	44,751	47,263	62,507	194,747	
1-Year Carry Forward to 2009		8,467	→						
Total Gross Annual Expenditures & Plan	61,365	54,507	48,477	49,599	44,751	47,263	62,507	252,597	
Program Debt Target			N/A	N/A	N/A	N/A	N/A	0	
Financing:									
Recommended Debt									
Reserves/Reserve Funds			48,477	49,599	44,751	47,263	62,507	252,597	100%
Development Charges									
Federal									
Provincial									
Other Revenue									
Total Financing			48,477	49,599	44,751	47,263	62,507	252,597	100%
By Category:									
Health & Safety									
Legislated			682	500	500	500	500	2,682	1%
SOGR			45,700	47,519	42,366	44,713	59,877	240,175	95%
Service Improvement			2,095	1,580	1,885	2,050	2,130	9,740	4%
Growth Related									
Total By Category			48,477	49,599	44,751	47,263	62,507	252,597	100%
Yearly SOGR Backlog Estimate (not addressed by current plan)			(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(30,000)	
Accumulated Backlog Estimate (end of year)		35,024	29,024	23,024	17,024	11,024	5,024	5,024	
Operating Impact on Program Costs									
Debt Service Costs									

5-Year Capital Forecast (2014-2018)



	5-Year Capital Forecast							10-Year Total Percent
	2014	2015	2016	2017	2018	2014-2018	2009-2014	
Gross Expenditures:								
2008 Capital Budget & Future Year Commitments							16,459	
Recommended Changes to Commitments							3,350	
2009 New/Change in Scope and Future Year Commitments							38,041	
2014 - 2018 Capital Forecast Estimates	46,813	51,370	46,432	47,865	42,822	235,302	430,049	
Total Gross Annual Expenditures & Plan	46,813	51,370	46,432	47,865	42,822	235,302	487,899	
Program Debt Target	N/A	N/A	N/A	N/A	N/A	0	0	
Financing:								
Recommended Debt								
Reserves/Reserve Funds	46,813	51,370	46,432	47,865	42,822	235,302	487,899	100%
Development Charges								
Federal								
Provincial								
Other Revenue								
Total Financing	46,813	51,370	46,432	47,865	42,822	235,302	487,899	100%
By Category:								
Health & Safety								
Legislated	500	500	500	500	500	2,500	5,182	1%
SOGR	43,873	49,220	44,232	45,615	39,947	222,887	463,062	95%
Service Improvement	2,440	1,650	1,700	1,750	2,375	9,915	19,655	4%
Growth Related								
Total By Category	46,813	51,370	46,432	47,865	42,822	235,302	487,899	100%
Yearly SOGR Backlog Estimate (not addressed by current plan)	(6,000)						(30,000)	
Accumulated Backlog Estimate (end of year)	0	0	0	0	0	0	(5,024)	
Operating Impact on Program Costs								
Debt Service Costs								

10-Year Capital Plan and Forecast Overview

- The 10-Year Capital Plan and Forecast incorporates Fleet Services' core portfolio of State-of-Good-Repair (SOGR) and essential life cycle replacement of the City's fleet of vehicles and equipment utilized by all City Programs, and Agencies, Boards and Commissions, excluding the Toronto Police and TTC.
- The 10-Year Capital Plan and Forecast totals \$487.899 million, excluding carry forward funding, and is full funded from the Vehicles and Equipment Replacement Reserves and does not affect the debt level for the City. The Vehicles and Equipment Replacement Reserves are financed annually by the Programs' budgeted contributions to the Reserves from their Operating Budgets.
- The 10-Year Capital Plan and Forecast addresses the Program's service objectives by funding the following key priority action items for 2009 to 2013:
 - Continuation of the Green Fleet initiatives to lower emissions and save fuel by taking advantage of innovative green technology. The goal is to increase the number of City green vehicles from 363 in 2008 to 803 in 2011.
 - Continue with the closure of Fuel Sites in accordance with the "Corporate Fuel Sites Review" approved by Council in 2006. The priority action is to close 8 more fuel sites in 2009, and to upgrade 3 existing sites.
- The 10-Year Capital Plan and Forecast includes funding for:
 - Green Fleet initiatives in the amount of \$2.682 million for 2009 to 2013, and \$2.500 million for 2014 to 2018.
 - Fuel Site Closures in the amount of \$8.200 million for 2009 to 2013, and \$8.500 million for 2014 to 2018.
- The breakdown by project category in the 10-Year Capital Plan and Forecast is 95% of the total forecasted cash flow over the 10-year planning horizon is allocated to State-of-Good Repair projects at \$240.175 million, 1% to Legislated projects at \$5.182 million, and 4% to Service Improvement at \$19.655 million.

Multi-Year Debt Affordability Targets

The 2009 Recommended Capital Budget, 2009 to 2013 Recommended Capital Plan, and 2014 to 2018 Proposed Capital Forecast is fully funded from the Reserves and does not affect the debt level for the City.

Project Financing

The Recommended 5-Year Capital Plan for Fleet Services is funded from the Vehicle and Equipment Replacement Reserves which are financed by an annual contribution from the Operating Budgets of the participating Programs into the respective Reserve. Replacing vehicles acquired in or before 2005 will still be based on a "pay as you go" basis. Namely, each Program's annual contributions to the Vehicle and Equipment Replacement Reserve cannot be less than the capital required to replace the vehicles in 2009.

For vehicles acquired after 2006 a component of the chargeback rate billed monthly by Fleet Services to the Programs will be used to contribute to the Vehicle and Equipment Replacement Reserves for the replacement of these vehicles. An accounting entry is processed each month to transfer the reserve component to the respective Vehicle and Equipment Replacement Reserves.

State of Good Repair (SOGR) Backlog

The projected backlog at the end of 2008 is \$35.024 million. This is the result of a reduction of \$10.346 million from the backlog of \$45.370 million at the end of 2007. Fleet Services will reduce this backlog annually by \$6.000 million, effectively reducing the backlog to \$5.024 million by 2013. The backlog will be eliminated in 2014.

Program Capacity and Readiness to Proceed

Historically, Fleet Services' spending rates were affected by the procurement process and manufacturers' build-out dates. Typically, the preparation of specifications and tenders occurred in the first half of the year, with the issuance of purchase orders occurring in the second half. This often resulted in delivery of goods not taking place until the spring of the year following the year of budget approval. Vehicle delivery is determined by the manufacturers' build out dates; heavy vehicles and specialized equipment take longer to be assembled and built, and these commonly will not be delivered by year end. This is particularly true for Solid Waste, Transportation, and Toronto Water vehicles and specialized equipment needs.

Nevertheless, Fleet Services has made a concerted effort in working closer with manufacturers to align clients' specifications and manufacturers capacity to deliver, in an attempt to better align cash flow with product delivery. Improvement in spending rates is already noted, from 59.5% in 2007 to 75% in 2008.

Changes to the 5-Year Capital Plan (2009-2013)

The 2009 cash flow has been reduced by \$4.421 million from \$61.365 million in 2008 to \$56.944 million in 2009 as a result of reviewing the cash flow requirements for new 2009 projects in Fire Services, and Transportation Services. In 2008, the contributions to their Vehicle and Equipment Reserve were reduced by Fire Services as a result of Cost Containment measures, which resulted in a negative impact on the adequacy of the Reserve. An adjustment was made to defer Fire Services 2008 cash flow of \$3.311 million into 2010, and no new 2009 request was made.

Similarly, the 2009 cash flow for Transportation was set with a previously approved commitment, and a reduced new 2009 cash flow is now in line with projected availability of funding in its reserve account.

Over the five year period, the Recommended 5-Year Capital Plan (2009-2013) increased by \$48.473 million to \$252.597 from \$204.142 million as approved in 2008. This is essentially because Solid Waste Management's fleet of Packers is due for replacement in 2013, requiring \$27.654 million, an increase of \$14.408 million. In addition, in 2013 an increase of \$6.000 million is required for Transportation Services, an increase of \$4.610 million for EMS, \$7.200 million increase for Fire Services, \$6.566 million increase for Parks, Forestry and Recreation's fleet replacement. These estimates for the Fleet's major clients' fleet replacement are based on the life-cycles of the vehicles and equipment due for replacement in 2013.

Capital Projects Highlights**Strategic Priorities**

The 5- Year Capital Plan advances the following strategic priorities:

A Greener City of Toronto

- The Recommended 5-Year Capital Plan incorporates funding for the Green Fleet Plan which, over the five year period, includes a total of \$2.682 million to replace vehicles and equipment with newer and innovative green technology to provide greater opportunities to lower emissions and save fuel. The Green Fleet Plan's objective is to transition the City's vehicles and equipment to lower impact alternatives such as bio-diesel, natural gas and hybrid electric vehicles.
- Continue to reduce and upgrade City operated fuel sites to reduce environmental risks and to improve operational efficiencies.

Operating Budget Impact - 10-Year Plan & Forecast**Incremental Operating Impact Summary**

There is no impact on the Program's Operating Budget arising from approval of the 2009 Recommended Capital Budget, the 2010 to 2013 Recommended Capital Plan or the 2014 to 2018 Proposed Capital Forecast. However, the Green Fleet initiatives will slowly increase the number of vehicles equipped with green technology, such as hybrid trucks, that will save fuel consumption costs that are charged to Fleet's client Programs. These lower fuel costs will be reflected in the client Programs' future year operating budgets.

Total 2009 Recommended Cash Flow & Future Year Commitments (\$000s)

	2007 & Prior Year Carry Forwards	2009 Previously Approved Cash Flow Commitments	2009 New Cash Flow Recommended	2009 Total Cash Flow Recommended	2009 Debt Target	2008 Carry Forwards	Total 2009 Cash Flow (Incl 2008 C/Fwd)	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total Cost
Expenditures																	
Previously Approved	6,782	19,809		26,591		8,467	35,058	392									35,450
Change in Scope																	0
New			12,019	12,019			12,019										12,019
New w/Future Year			9,867	9,867			9,867	8,981									18,848
Total Expenditure	6,782	19,809	21,886	48,477	N/A	8,467	56,944	9,373	-	-	-	-	-	-	-	-	66,317
Financing																	
Reserves/Res Funds	6,782	19,809	21,886	48,477		8,467	56,944	9,373									66,317
Development Charges																	0.0
Other																	0.0
Debt																	0.0
Total Financing	6,782	19,809	21,886	48,477	N/A	8,467	56,944	9,373	-	-	-	-	-	-	-	-	66,317

Comments / Issues:

- The 2009 Recommended Capital Budget is \$56.944 million, and includes funding for 2007 and prior years projects carried forward to 2009 of \$6.782 million, funding carried forward from 2008 into 2009 of \$8.467 million, previously approved funding of \$19.809 million, and new funding of \$21.886 million.
- Approval of the 2009 Recommended Capital Budget will result in a future year commitment of \$9.373 million in 2010. This is required for delivery of vehicles in 2010 that will be ordered in 2009.
- The 2009 Recommended Capital Budget is fully funded from the Vehicle and Equipment Reserves.

2009 Recommended Capital Budget

2009 Recommended Capital Budget versus Debt Target

The 2009 Recommended Capital Budget for Fleet Services is funded from the Vehicle and Equipment Reserves, and does not affect the debt level for the City.

Capital Budget by Project Category

The 2009 Recommended Budget is comprised of \$45.700 million or 95% for SOGR projects, \$2.095 million or 4% for Service Improvement projects, and \$0.682 million or 1% for Legislated projects. The majority of projects in this Program are for timely replacement of vehicles and equipment for various City Programs. The IT related projects, and the fuel sites closure project comprise the service improvement projects, and the Green Fleet Plan is a Legislated project (Council Approved).

2009 Capital Project Highlights

The Recommended 2009 Budget provides funding for:

- Vehicle replacement for Fleet Services' client Divisions (\$53.950 million), including
 - Parks, Forestry and Recreation in the amount of \$6.671 million;
 - Solid Waste Management in the amount of \$12.266 million;
 - Transportation Services in the amount of \$6.642 million;
 - Emergency Medical Services in the amount of \$6.998 million; and,
 - Fire Services in the amount of \$8.557 million.
- The Green Fleet Plan (\$0.899 million)
- Fuel Sites Closure (\$1.950 million)
- Upgrade to Fleet Management System and integration with Fuel Management System (0.145 million)

Capacity and Readiness to Proceed

The spending rate for 2008 indicates that the Program has been able to improve over prior years' spending rates and continues to ensure that project delays are kept to a minimum.

Fleet Services has worked with their clients to standardize specifications for vehicles and equipment. In addition, Fleet Services has planned their cash flow requirements to better align with manufacturers' build out dates.

Appendix 1

**2009 Recommended Capital Budget; 2010 to 2013 Plan
and 2014 to 2018 Forecast**

Appendix 2

**2009 Recommended Cash Flow
and Future Year Commitments**

Appendix 3
2009 Recommended Capital Projects
with Financing Details

Appendix 4

Reserve / Reserve Fund Review

Reserve / Reserve Fund Name (In \$Thousands)	Balance as of December 30, 2008	Proposed Withdrawals											2009-2018 Total
		2009 Rec. Budget	2010 Plan	2011 Plan	2012 Plan	2013 Plan	2014 Fore.	2015 Fore.	2016 Fore.	2017 Fore.	2018 Fore.		
Vehicle Reserves													
XQ1012 TORONTO WATER	5,052	1,200	6,400	3,675	3,785	3,900	4,016	4,136	4,260	4,388	4,520	40,280	
XQ1014 SOLID WASTE MANAGEMENT	7,533	7,333	10,258	10,895	13,246	27,654	11,007	16,386	11,252	12,687	5,664	126,382	
XQ1015 TRANSPORTATION SERVICES	3,577	600	5,000	6,250	6,000	6,000	6,000	6,000	6,000	6,000	6,000	53,850	
XQ1016 TECHNICAL SERVICES	710	352	132	229	236	243	250	258	266	274	282	2,522	
XQ1100 CNS	52	0	0	0	41	82	0	45	0	45	85	298	
XQ1101 PUBLIC HEALTH	442	0	0	30	148	26	27	0	68	0	0	299	
XQ1200 ARTS & CULTURE	134	0	0	28	24	56	53	0	56	48	0	265	
XQ1201 PARKS, FORESTRY & RECREATION	6,920	1,334	10,509	6,189	6,375	6,566	6,763	6,966	7,175	7,390	7,612	66,879	
XQ1301 MUNICIPAL LICENSING & STDS	853	500	450	464	475	492	506	522	537	553	570	5,069	
XQ1401 POLICY, FINANCE & ADMINISTRATION	76	0	25	55	88	30	0	0	0	0	30	228	
XQ1502 FACILITIES AND REAL ESTATE	1,770	195	237	500	133	533	1,023	125	110	20	471	3,347	
XQ1503 FLEET SERVICES	664	250	48	168	149	154	200	200	250	250	250	1,919	
XQ0003 FLEET MGMT	17,910	3,050	2,580	2,885	3,050	3,130	3,440	2,650	2,700	2,750	3,375	29,610	
XQ1504 CITY CLERKS	391	0	0	65	70	100	75	77	79	81	84	631	
XQ1600 FINANCE	361	70	171	140	54	30	53	306	30	30	116	1,000	
XQ1601 INSURANCE	720	450	350	350	350	350	350	350	350	350	350	3,600	
XQ1700 LIBRARY	153	334	405	213	361	374	150	412	332	0	365	2,946	
XQ1702 EXHIBITION PLACE	303	350	350	350	350	361	372	383	394	406	418	3,734	
XQ1703 ZOO	700	280	300	500	300	515	531	547	563	580	580	4,696	
XQ1705 ARENA BOARDS OF MGT	274	90	92	95	98	101	97	107	110	113	150	1,053	
SUB-TOTAL - FLEET MANAGED	52,091	16,388	37,307	33,081	35,333	50,697	34,913	39,470	34,532	35,965	30,922	348,608	
XQ1017 FIRE SERVICES	(5,706)	0	7,592	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	65,192	
XQ1018 EMERGENCY MEDICAL SERVICES	1,538	5,498	4,700	4,470	4,730	4,610	4,700	4,700	4,700	4,700	4,700	47,508	
SUB-TOTAL - EMS & FIRE MANAGED	(4,168)	5,498	12,292	11,670	11,930	11,810	11,900	11,900	11,900	11,900	11,900	112,700	