

Capital Variance Report for the Year Ended December 31, 2013

Date:	June 4, 2014
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2014\Internal Services\Fp\Bc14015Fp (AFS #19103)

SUMMARY

The purpose of this report is to provide Council with the City of Toronto Capital Variance for the year-ended December 31, 2013, to seek Council's approval for in-year budget and 2013 carry forward funding adjustments that have no incremental impact on debt.

Capital expenditures for the twelve months ended December 31, 2013 totalled \$2.386 billion or 57.9% of the 2013 Approved Capital Budget of \$4.125 billion (see Table 1). This spending pattern is consistent with prior years. As detailed by City Program and Agency in **Appendix 1**, it is noted that 14 of 33 City Programs and Agencies spent in excess of 60% of their respective 2013 Approved Capital Budget.

For the twelve-months period ended December 31, 2013, Tax Supported Programs and Agencies reported capital expenditures of \$1.837 billion representing 55.7% of their collective 2013 Approved Capital Budget of \$3.298 billion; Rate Supported Programs reported capital expenditures of \$548.752 million, representing 66.3% of their collective 2013 Approved Capital Budget of \$827.125 million.

Table 1			
Corporate Capital Variance Summary			
for the Period Ended December 31, 2013			
(\$000s)			
	2013 Approved Budget	Actual Expenditures - January 1 to December 31, 2013	
		\$000s	%
City Operations	1,283,160	701,664	54.7
Agencies	2,014,494	1,135,963	56.4
Sub Total - Tax Supported	3,297,653	1,837,626	55.7
Rate Supported Programs:	827,124	548,752	66.3
TOTAL	4,124,778	2,386,379	57.9

The rate of spending in 2013 was driven largely by difficulty in finding and securing suitable sites for constructions in accordance with initially planned timeframes; delays in securing funds from cost-sharing partners; longer than planned timelines to obtain necessary approvals or required permits; extensive community consultations; delays in tendering contracts; unanticipated delays in construction start-up; and resources constraints. Unspent funds for projects that have not been completed have been carried forward to 2014 on an as needed basis, in accordance with the City's Carry Forward Policy.

In addition, several projects were completed under-budget. Through this report staff recommends closing 67 projects which have come in under budget by \$35.354 million.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council approve in-year budget adjustments to the Toronto Water's 2013 Approved Capital Budget and Plan detailed in Appendix 2 with no incremental impact on debt funding.
2. Council approve additional carry forward funding of \$0.046 million in unspent capital funding from 2013 for Children Services as detailed in Appendix 3, in order to continue work on previously approved capital project, and that the 2014 Approved Capital Budget be adjusted accordingly with no incremental impact on debt.
3. Council receive for information Appendix 4 which lists 67 capital projects/sub-projects that have been completed and are to be closed, having a total project budget saving of \$35.354 million, including savings of \$31.660 million in debt funding.
4. Council authorize and direct the appropriate City Officials to take the necessary action to give effect thereto.

FINANCIAL IMPACT

As shown in the Table 2 below, Tax Supported Programs and Agencies reported capital expenditures of \$1.838 billion representing 55.7% of their collective 2013 Approved Capital Budget of \$3.298 billion.

Table 2 Corporate Capital Variance Summary for the Period Ended December 31, 2013 (\$000s)			
	2013 Approved Budget	Actual Expenditures - January 1 to December 31, 2013	
		\$000s	%
Tax Supported Programs:			
Citizen Centred Services - "A"	288,370	148,839	51.6
Citizen Centred Services - "B"	434,614	249,069	57.3
Internal Services	479,273	255,005	53.2
Other City Programs	80,902	48,750	60.3
Sub Total City Operations	1,283,160	701,664	54.7
Agencies	2,014,494	1,135,963	56.4
Sub Total - Tax Supported	3,297,653	1,837,626	55.7
Rate Supported Programs:			
Toronto Parking Authority	50,562	10,946	21.6
Solid Waste Management	101,787	37,955	37.3
Toronto Water	674,775	499,851	74.1
Sub Total - Rate Supported	827,124	548,752	66.3
Total	4,124,811	2,386,379	57.9

- **City Operations** reported capital expenditure of \$701.664 million or 54.7% of their collective 2013 Approved Capital Budget of \$1.283 billion as of December 31, 2013.
- **Agencies** reported capital expenditure of \$1.136 billion or 56.4% of their collective 2013 Approved Capital Budget of \$2.014 billion, for the twelve months ended December 31, 2013.
- **Rate Supported Programs** reported capital expenditure of \$548.752 million or 66.3% of their collective 2013 Approved Capital Budget of \$827.125 million, for the twelve months ended December 31, 2013.

Recommended in-year adjustments will reduce Toronto Water's 2013 Approved Capital Budget by \$25.290 million. This is primarily due to the fact that Toronto Water has reduced the contingency amounts for multi-year sub-projects that have reached substantial completion in 2013. As a result, funding contribution requirements from the Toronto Water Capital Reserve Funds will be reduced by an equivalent amount of \$25.290 million.

The recommended carry –forward adjustment increase to the Children Services 2014 Approved Capital Budget of \$0.046 million. This carry-forward funding adjustment is needed to continue work on previously approved *Squirrel's Nest* project funded by Section 37 funds.

At 2013 year-end, 67 capital projects are fully completed and recommended for closure. These fully completed projects have total approved project costs of \$234.090 million and actual spending of \$198.735 million, representing a total under-spending of \$35.354 million, with \$31.660 million funded by debt and \$3.694 million from other funding sources such as Capital from Current and Toronto Parking Authority Revenue.

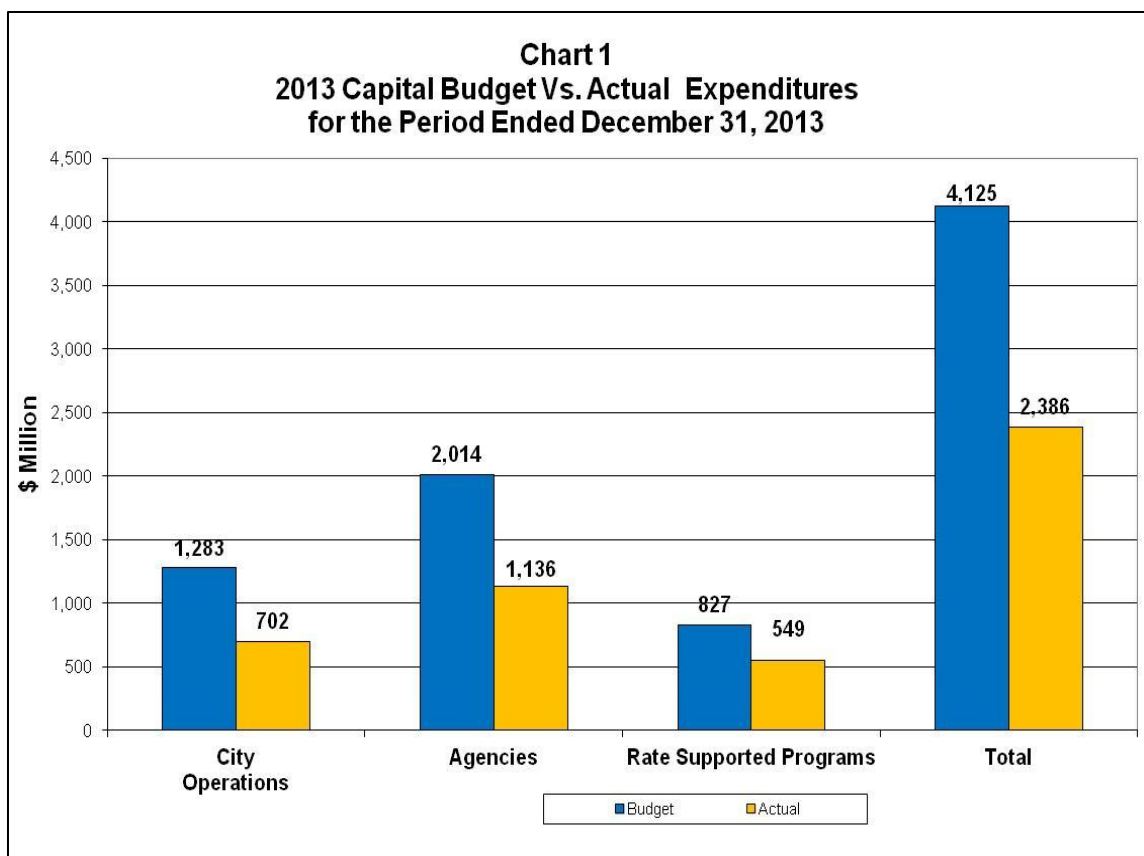
During 2013, City's Programs and Agencies completed and closed 233 capital projects with a total project cost of \$1.557 billion that had capital expenditure of \$1.374 billion resulting in underspending of \$183.300 million. In accordance with the Financial By-Law, funds will be returned to their original sources and \$103.139 million in debt saving had been realized.

ISSUE BACKGROUND

This report is provided pursuant to financial management and budgetary control best practices. As part of the City's accountability framework, a year-end capital variance report is submitted to Committees and Council in order to provide information on how the approved capital works have progressed during 2013, the actual spending incurred against the 2013 Approved Capital Budget and on an exceptional basis, to identify issues and recommend corrective action as necessary.

COMMENTS

At its meeting of November 27 -28, 2012, Council approved a 2013 Rate-Supported Capital Budget of \$791.297 million; and at its meeting of January 15-16, 2013, Council approved a 2013 Tax Supported Capital Budget of \$2.838 billion for a total of \$3.630 billion. The 2013 Rate-Supported Capital Budget consists of \$657.266 million for Toronto Water, \$40.102 million for Toronto Parking Authority and \$93.929 million for Solid Waste Management Services. Taking into account approved additional 2012 carry forward funding and 2013 in-year budget adjustments for all City Tax and Rate Programs and Agencies, the 2013 Adjusted Capital Budget is \$4.125 billion (see Chart 1).



As detailed in **Appendix 5**, under-spending in the 2013 Approved Capital Budget was primarily experienced in Parks, Forestry & Recreation, Transportation Services, Facilities Management & Real Estate, Toronto Transit Commission, Toronto Parking Authority and Solid Waste Management. These Programs and Agencies accounted for \$2.833 billion or 69% of the total 2013 Approved Capital Budget and \$1.334 billion or 77% of total under-spending for 2013.

Notwithstanding the above spending rate, some significant projects were completed in 2013 and a number of projects were completed under-budget.

Tax Supported Programs

City Operations

For the year ended December 31, 2013, actual capital expenditures for City Operations totalled \$701.664 million or 54.7% of their collective 2013 Approved Capital Budget of \$1.283 billion.

Children Services completed the *Nelson Mandela Public School* project and *Thorncliffe Park Child Care Centre* project spending \$0.495 million of 2013 approved cash flow funding that provides a total of 121 child care space for infants, toddlers, preschool and kindergarten.

Emergency Medical Service (EMS) spent \$6.116 million to complete the installation of an electronic card-access security system in 45 EMS locations, replace medical equipment such as stretchers, stair chairs and defibrillator cables and to purchase land for the Northwest Multi-function station.

Parks, Forestry and Recreation (PF&R) spent \$20.798 million for projects that were completed in 2013 including:

- The *Leaside Memorial Gardens Arena Expansion* (\$11.800 million) includes the addition of a second ice pad, change rooms, and a new scoreboard;
- The *Greenwood Park Artificial Ice Rink* project (\$4.200 million) delivered a new covered hockey pad, skating trail, refrigeration equipment and building renovations;
- The *Dieppe Park Artificial Ice Rink* project (\$2.300 million) provides new hockey and pleasure skating pads, refrigeration upgrades, and building renovations;
- Construction of 2 new bridges, trail reconstruction, and creek rehabilitation at sites 3, 6 and 7 of *Wilket Creek Park* (\$1.500 million);
- Multi-use trail at *Riverdale Park* and new pathway lighting at *R.V Burgess* and *Glentworth Ravine* (\$0.450 million); and
- The rehabilitation of King Edward monument and site restoration at *Queens Park* (\$0.450 million)

Most of the completed capital work in 2013 for **Transportation Services** occurred in the following Programs:

- The *Local Road Rehabilitation* program (\$15.736 million or 82.9% of 2013 approved cash flow of \$18.980 million);
- The *Traffic Control* program (\$10.493 million or 63.2% of 2013 approved cash flow of \$16.605 million);
- The *Sidewalk Rehabilitation* program (\$9.184 million or 84.3% of 2013 approved cash flow of \$10.901 million); and
- The *Major Roads Rehabilitation* program (\$5.558 million or 60.5% of 2013 approved cash flow of \$9.192 million).

311 Toronto completed the *Counter Service (Kiosk) Efficiency Review* project (\$0.385 million) that resulted in cross-divisional information gathering and analysis to determine counter service efficiencies and strategies in response to the Service Efficiency

Study. A framework has been developed that will allow for future cross divisional scheduling at all of the City's counters.

Facilities Management & Real Estate (FM&RE) was able to address a number of State of Good Repair (SOGR) backlog items at various facilities during 2013. Over 80 SOGR projects were completed on or under budget, resulting in savings of \$2.970 million compared to a budget of \$55.784 million, addressing health and safety, legislated and other major maintenance issues.

During the 2013, ***Financial Services*** completed the *Payment Processing Centre (PPC) Relocation* project representing 45% of its 2013 approved cash flow funding of \$0.100 million. This project completed renovations of space at the North York Civic Centre and allow the relocation of the PPC from leased space. Benefits of the project include utility savings and efficiencies (approximately \$0.030 million in operating savings annually to Revenue Services and Facilities Management) due to streamlined operations for payment processing, including reductions in the need to transport large volumes of documents, reduced travel time by having staff consolidated in one central location and improved security.

Financial Services also proceeded as planned with implementation of the Public Budget Formulation (PBF), Reporting Analytics, and Complement Management functionalities. Major achievements in 2013 include:

- Expansion of the City's Service Inventory to include program maps, service profiles and service levels for all City Agencies (Toronto Police Service and TTC are still draft), resulting in complete qualitative and quantitative service profile information for 155 distinct City services offered to the public.
- The establishment of a Performance (metric) Inventory, with over 900 efficiency, quality and outcome metrics identified and selected by each Division for its service and activities that will allow the City to gauge service performance.
- The implementation of the Public Budgeting Formulation (PBF) tool which went live May 6, 2013 for use by City Divisions and Agencies for the preparation their 2014 service-based operating budget submissions and throughout the balance of the 2014 Budget process. With the approval of the 2014 Operating Budget, City Council approved its first service-based operating budget based on the City's Service Inventory.
- The implementation of changes to the City's accounting, payroll and human resources components of SAP's Enterprise Central Component (ECC) to enable service reporting, all of which went live November 12, 2013, and became fully operational for January 1, 2014.
- Established a best practice approach to complement management.

- Human Resources developed and implemented an Organization Management e-Request system (HoMER) aimed at streamlining the Organizational Change Approval (OCA) process that was released December 6, 2013.
- Completion of a Reporting Strategy that introduced new "dynamic reports" to provide the analytics and reporting capabilities leveraged from the SAP Business Warehouse and Business Intelligence Tools.
- Trained over 475 PBF users and 4,000 SAP end users using various training strategies.

Information & Technology completed the following project in 2013:

- *Desktop Hardware & Software, Enterprise Servers, Storage & Software* project (\$13.698 million) to replace 3,010 desktops, 702 notebooks, 157 tablets, 674 printers and 520 monitors across City Divisions;
- *Lifecycle Asset Management* project (\$1.567 million) which increased wireless capacity by adding additional access points in Community Council and public areas in Civic Centres;
- The *WEB (Web Implementation and Rollout)* project (\$2.568 million) that migrated and redesign existing static web content to the new web content management application; and
- The *Disaster Recovery Plan* (\$2.375 million) that completed business impact analyses with most City Divisions for their Business Continuity (BC) and Disaster Recovery (DR) plans.

The ***Sustainable Energy Plan (SEP)*** completed Phase I of the *Solar Photovoltaic Program* (in partnership with Toronto Hydro) including the installation of solar panels at 10 City locations. These installations have started to generate revenue in 2013 through the Ontario Power Authority's (OPS) FIT program, and will continue to generate revenue over the next 20 years; a total of \$6.000 million was distributed to the Toronto Community Housing Corporation as part of the Tower Renewal initiatives to assist with funding of energy efficiency measures at TCHC towers.

City Agencies

For the year ended December 31, 2013, actual capital expenditures for City Agencies totalled \$1.136 billion or 56.4% of their collective 2013 Approved Capital Budget of \$2.014 billion.

Exhibition Place completed the *Parks, Parking Lots and Roads* project (\$1.197 million) for the repair of sidewalks, pathways, roads and lots, as well as upgrades to street and parking lot lighting retrofits; and The *Equipment* project (\$0.845 million)

for the upgrade of parking kiosks, building automation systems, replacement of fibre optic cables and fire alarm system panels, and various electrical infrastructure upgrades.

Toronto and Regional Conservation Authority (TRCA) completed 4 projects in 2013 including:

- The *Waterfront and Valley Erosion Control* project (\$1.530 million) for valley and shoreline erosion protection initiatives at a number of sites within Toronto, including Lake Ontario shorelines, which pose risk to residential dwellings, commercial and industrial buildings, public greenspace and infrastructure;
- The *Toronto Remedial Action Plan* project (\$2.321 million) for monitoring and renaturalization of watercourses, water quality and habitat as well as channel maintenance, flood control works and watershed plans;
- The *Waterfront Development* project (\$1.608 million) for site preparation and monitoring at various waterfront sites including Tommy Thompson Park, as well as dredging of the Keating Channel and Ashbridges Bay; and
- The *Critical Erosion Control Needs* project (\$1.500 million) for the Meadowcliffe Drive Erosion Control project that is designed to address erosion and slope instability along 600 meters of the bluffs directly below Meadowcliffe Drive.

In 2013, **Toronto Public Health (TPH)** completed the *Datamart Data Warehouse Phase 1* project with capital expenditures of \$0.883 million representing 100% of the 2013 approved cash flow funding. The project, completed at a cost of \$1.398 million (100% of the approved project cost of \$1.398 million) will improve access to data for key performance measures to support management planning, meet mandated reporting requirements, allow sharing of data across programs, ensure data consistency and quality, and provide improved analysis and reporting capability.

Toronto Public Library (TPL) completed 2 projects including the *Malvern Media Lab* (\$0.025 million) delivering a Youth Hub/Media Centre and outdoor plaza with a reading garden for cultural and community events; and *Fairview Library Renovation* (\$3.326 million).

Toronto Zoo completed the *Exhibit Refurbishment* project with total expenditures of \$0.502 million representing 100% of the 2013 approved cash flow funding and project cost. This project was completed in September 2013 and includes the refurbishment of the Amur tiger exhibit; and *Grounds & Visitor Improvements* project with a 2013 capital expenditures of \$0.645 million representing 100% of the 2013 approved cash flow funding. With an approved total project cost of \$0.804 million and life-to-date expenditure of the same amount, this project was completed in September 2013 providing new washrooms and retail and food outlets.

Rate Supported Programs

For the year ended December 31, 2013, actual capital expenditures for Rate Supported Programs totalled \$548.752 million or 66.3% of their collective 2013 Approved Capital Budget of \$827.125 million.

Toronto Parking Authority (TPA) completed a number of *State of Good Repair (SOGR)* projects including:

- Repaving and lighting upgrades at Carpark 41 (7 Norton Avenue), Carpark 71 (35 Bellevue Avenue), Carpark 106 (15 Denison Avenue) and Carpark 152 (25 Glenforest Road) for a total of \$0.536 million;
- Paving and greening of Carpark 231 (19 Spadina Road) for \$0.120 million; the installation of a second emergency generator at Carpark 26 (37 Queen Street East) for \$0.205 million;
- Waterproofing of roof levels at Carpark 68 (20 St. Andrew Street – Kensington Garage) for \$0.288 million; and
- The *Pay and Display* equipment upgrades (\$0.336 million) and expansion of *Carpark at Roe Avenue* adjacent to CP411 (1880 Avenue Road) for \$1.120 million.

All completed projects were 2013 projects with a total project cost and 2013 approved cash flow funding of \$3.294 million. They were completed at 80.3% of the estimated project costs.

Toronto Water (TW) spent \$36.431 million for projects that were completed in 2013, including the *Coxwell Sanitary Trunk Bypass project* (\$6.115 million); *Avenue Road Trunk Watermain* project – permanent road restoration (\$4.401 million); and *New Service Connection* projects (\$22.536 million).

2013 In-Year Budget Adjustments

In -year budget and technical adjustments to the 2013 - 2022 Approved Capital Budget and Plan require approval by Council. As detailed in **Appendix 2**, budget adjustments are recommended for Toronto Water.

Since some of the large multi-year projects reached substantial completion during 2013, contingency costs for those projects are being reduced by \$25.290 million, and as a result, funding contribution requirements from the Toronto Water Capital Reserve Funds will be reduced by an equivalent amount.

Additional Carry Forward Funding

The City's Carry Forward Policy permits City Programs and Agencies to adjust their prior year carry forward requirements based on updated year-end information.

Appendix 3 details an additional 2013 carry forward funding adjustment for Children Services totalling \$0.046 million funded by Section 37 funds based on actual year-end results.

Closed Capital Projects

The City's Financial Control By-Law stipulates that Chief Financial Officer must "submit a report to Council on an annual basis detailing all capital projects closed during the year". **Appendix 4** details completed projects for various City Programs and Agencies that will be closed.

It is noted that closing projects / subprojects facilitate effectiveness by enabling staff to focus attention only on active projects, and supports better and more efficient and accurate variance reporting. A consolidated list of projects and sub-projects recommended for closure will be forwarded to the Accounting Services Division with instructions to close them in order to preclude any further processing of transactions against them.

A capital project is considered fully closed when all its subsidiary projects are completed. Capital project financing may have various funding sources. Projects are normally funded based on actual expenditures in the following order: third-party funding, reserves or reserve funds, and lastly debt. In accordance with the Finance Control By-Law, after a project is fully completed and closed, the unspent funding, if any, will be treated as follows:

- Third party funding will be returned to the source as they are generally for specific purposes and can only be used for the specific projects
- Reserve funds are drawn based on actual expenditure within the Council approved limit. Any undrawn portion will remain in the same reserve or reserve fund
- Debt is applied only lastly and for the purposes for which the debt was issued. The unspent debt portion will generally not be issued and debt savings will be realized.

As detailed in Appendix 4, an additional 67 capital projects are fully completed and recommended for closure at 2013 year-end. These fully completed projects have a total approved project cost of \$234.090 million and actual spending of \$198.735 million, representing total underspending of \$35.354 million, with \$31.660 million funded by debt and \$3.694 million from other funding sources such as capital from current (CFC) and Program Specific Reserves.

Of these 67 capital projects, 56 are in Tax Supported Programs. Total under-spending of \$32.472 million comprised of \$31.660 million funded by debt and \$0.812 million from CFC funding source; and, 11 completed projects for Rate Supported Programs with total under-spending of \$2.883 million funded by Toronto Parking Authority Revenue.

In 2013, Tax Supported Programs and Agencies completed work and closed 193 capital projects that had a total project cost of \$1.283 billion and total capital expenditure of \$1.123 billion resulting in savings of \$160.533 million, with \$103.139 million in debt funding, \$1.085 million in various reserve and reserve funds funding and \$56.309 million in other funding sources such as provincial and federal subsidies and grants, donations and capital from current (CFC).

Rate Supported Programs completed work and closed 40 capital projects with a total project cost of \$273.127 million and total spending of \$250.350 million resulting in savings of \$22.777 million, with \$19.618 million to be returned to Toronto Water's reserves and reserve funds and \$3.159 million to Toronto Parking Authority Revenue.

During 2013, City's Programs and Agencies completed and closed 233 capital projects with a total project cost of \$1.557 billion and total spending of \$1.374 billion resulting in savings of \$183.300 million, of which \$103.139 million is debt.

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SIGNATURE

Roberto Rossini
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ATTACHMENTS

- Appendix 1 - 2013 Consolidated Capital Variance Report for the Year Ended December 31, 2013
- Appendix 2 - In-Year adjustments
- Appendix 3 - 2013 Carry Forwards Funding Adjustments
- Appendix 4 - Closed Capital Projects
- Appendix 5 - Capital Variance Explanation - Programs/Agencies