

## **2013 Year-End Capital Adjustments, Carry-Forward Funding Adjustments to the 2014 Approved Capital Budget and Project Closures**

<b>Date:</b>	March 12, 2014
<b>To:</b>	Budget Committee
<b>From:</b>	Deputy City Manager and Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2014\Internal Services\Fp\Bc14008Fp (AFS #19099)

### **SUMMARY**

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The purpose of this report is to seek Council's approval for 2013 in-year capital budget adjustments and carry-forward funding adjustments to the 2014 Approved Capital Budget of \$479.659 million. The recommended carry forward funding adjustments are in compliance with the City's Carryforward Policy and have no impact on the City's debt levels.

This report also provides a list of 155 completed capital projects to be closed including the total number and value of projects under and over expenditures. \$1.315 billion in projects are ready to be closed and have been completed under budget, with saving of \$145.749 million. These savings will be returned to their original funding sources, including a savings of \$70.130 million in debt funding.

### **RECOMMENDATIONS**

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The Deputy City Manager and Chief Financial Officer recommends that:

1. Council approve additional carry forward funding of \$479.659 million from unspent capital expenditure as detailed in Appendix 1, in order to continue work on previously approved capital projects, and that the 2014 Approved Capital Budget be adjusted accordingly with no incremental impact on debt.

2. Council approve budget adjustments to the 2013 Approved Capital Budget for various City Programs and Agencies without impact on debt as detailed in Appendix 2.
3. Council receive for information Appendix 3 which lists 155 capital projects/sub-projects that have been completed and are to be closed with a total combined project budget saving of \$145.749 million.
4. Council authorize and direct the appropriate City Officials to take the necessary action to give effect thereto.

## **FINANCIAL IMPACT**

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Approval of the additional carry forward funding of \$479.659 million recommended in this report increase the total 2014 carry forward funding from \$971.281 million to \$1.451 billion with no debt impact. Recommended incremental carry forward funding will increase the 2014 Approved Capital Budget from \$3.784 billion to \$4.264 billion. The total additional carry forward funding of \$1.451 billion represent 35% of the 2013 Approved Capital Budget. Recommended carry forward funding adjustments total \$444.050 million for 2013 approved capital projects and \$35.609 million for 2012 and prior year capital projects. 2012 and prior years recommended carry forward adjustments funded by debt were offset by 2014 approved cash flow deferrals that have an equivalent debt value in order to not impact approved debt funding levels.

Approval of the recommended 2013 budget adjustments does not have financial impact on the total 2013 Approved Capital Budget. The recommended budget adjustments have been offset by under spending in other projects/subprojects, as well as accelerations and deferrals.

Toronto Water requested 2013 budget adjustments detailed in a stand-alone accompanying report entitled "Toronto Water 2013 Year-End Capital Budget Adjustments and Accelerations / Deferrals". Toronto Water has reduced the contingency amounts for multi-year sub-projects that have reached substantial completion in 2013. As a result, funding contributions required from Toronto Water Capital Reserve Funds have been reduced by an equivalent amount of \$27.972 million

Fully completed capital projects to be closed at year-end have a total under spending of \$145.749 million. Closure of these projects will avoid debt borrowing in the amount of \$70.130 million, return \$20.468 million to reserve and reserve funds funding and \$55.150 million to other funding sources such as third party funding, federal subsidies, provincial grants and donations.

## **ISSUE BACKGROUND**

This report is provided pursuant to good business practices and budgetary control. As part of the City's accountability framework, 2013 year-end in-year budget adjustments, carry forward funding requests and requests for project closure are submitted to Committee and Council to ensure appropriate cash flow spending authorities are in place, specifically to provide ongoing transparency and accountability on all capital project activities.

## **COMMENTS**

With the approval of the 2014 Capital Budget by Council in January and the Final Year-End Variance Report projected for June 2014 once the year-end audit is finalized, it is critical to ensure appropriate cash flow authorities are in place to enable City Programs and Agencies to continue capital works on previously approved projects. With the 2013 fiscal year closed, City Programs and Agencies can now finalize carry forward funding, final budget adjustments to 2013 Approved Capital budget and closure of projects.

### **Additional Carry Forward Capital 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.

Due the timing of the 2014 Budget Approval process, the majority of Programs and Agencies were not able to finalize the carry-forward funding needed for completion of 2013 and prior year capital projects in time for City Council approval of the 2014 – 2023 Capital Budget and Plan. With the 2013 fiscal year closed, Program and Agencies can accurately identify the value of carry forward funding required to complete prior year projects. It is necessary that these adjustments now be made and approved to provide appropriate cash flow funding authorities to continue capital project delivery in 2014.

In accordance with the City's Carry Forward Policy, approval is being sought to carry forward funding for uncompleted 2013 projects with no incremental impact on debt. However, carry forward funding requests that are funded by debt for cash flow approved in 2012 and prior years must be offset by 2014 approved cash flow deferrals that have an equivalent debt value in order to not impact approved debt funding levels.

During 2014 Capital Budget process, City Council approved carry forward funding of \$805.110 million for Tax Supported Programs/Agencies and \$166.171 million in carry forward funding for Rate Supported Programs, totaling \$971.281 million in unspent funding to complete prior year projects. Appendix 1 details the incremental carry forward funding adjustments totalling \$444.050 million for 2013 approved capital projects and incremental carry forward funding adjustments totalling \$35.609 million for 2012 and prior year capital projects. Approval of these incremental carry forward funding

adjustments will increase total carry forward funding from \$971.281 million to \$1.451 billion, while increasing the 2014 Tax and Rate Approved Capital budget from \$3.784 billion to \$4.264 billion. Total carry forward funding of \$1.451 billion represents 35% in unspent funding of the 2013 Approved Capital Budget.

It is noted that reductions included in Appendix 1 are to adjust for overstated carry forward funding estimates already included in the 2014 Council Approved Capital Budget.

### **2013 In-Year Capital 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 various Programs and Agencies. The majority of the adjustments are required to align project funding and actual spending.

***Long-Term Care Homes & Services (LTCHS)*** requested budget adjustments between subprojects to ensure sufficient funding is available to support the future Kipling Acres redevelopment requirements. The Kipling Acres Redevelopment project - Phase 1 is a project that is funded through 6 separate sub-projects. Charges are applied to these sub-projects as a result of the vendor progress draws. The progress draws are based on total project progress, which includes demolition (CHA017-03), landscaping (CHA017-05) and the Children's Day Care (CHA017-06). In 2013, portion of costs were applied to the sub-projects, however this allocation across the sub-projects did not match plan amounts. As a result, the costs that should have been billed to CHA017-03, CHA017-05 and CHA017-06 were billed to CHA017-02. The requested adjustments will ensure that the residual funding in the three sub-projects is allocated to the Kipling Acres Redevelopment Study project (CHA017-02).

***Transportation Services (TP)*** has requested budget adjustments for the reallocation of funds between projects. These adjustments include the provision of additional funding for projects proceeding ahead of schedule or priority projects, with the additional funding drawn from projects which are under budget as these have fallen behind schedule for various reasons (contract award delays associated with delayed permit approvals; unforeseen site conditions delaying completion of engineering design and construction; etc.).

***Facilities Management and Real Estate (FM&RE)*** has requested budget adjustments to accommodate additional spending on a sub-project within the *Union Station Revitalization* project. Higher than expected design fees were incurred during 2013 on the *Phase 2* design to ensure that the design documentation incorporates sufficient details to minimize the impact of changes in the delivery of the *Phase 2* construction. The additional cash flow requirements were offset by lower than planned spending on legal

and other consulting services in the *Other Professional Services* sub-project. Both sub-projects are within the same overall project account.

In addition, FM&RE has requested year-end adjustments to reallocate funding between sub-projects within the *Old City Hall HVAC Upgrade* project over 2013 - 2015. In 2013, costs were incurred to remove the existing HVAC systems, complete the South East quadrant and commence work on the South West quadrant. Overall, costs incurred on the projects did not exceed approved cash flow planned for 2013 and these proposed adjustments result in no impact on the progress and cash flow of each subsequent year.

**Toronto Public Library (TPL)** requested budget adjustments to reallocate cash flows between projects to accommodate funding for projects that were ahead of schedule in 2013. Key projects experiencing cash flow modification as a result include, *Fort York Library*, *Scarborough Civic Centre*, and two *Multi-Branch* renovation projects. The cash flow funding for these projects has been re-adjusted in 2014 with no overall impact on project costs. Further, budget adjustments were requested to accommodate additional spending on repairs required for the *Fairview Library* renovation project which will be funded from the under spending in the *Mount Dennis Library* renovation project.

**Toronto Transit Commission (TTC)** requested budget adjustments to projects' funding, accelerations and deferrals of project cash flow, and reallocations of project funding within 2013. The budget adjustments to project funding are required to align with actual funding applied by project while accounting for funding program eligible costs. Accelerations and deferrals of project cash flows are required for specific projects based on slippage of work, project delays, and contract payment timeline changes. Key projects experiencing cash flow schedule modifications include *Leslie Barns*, *Purchase of Subway Cars* and *ATC Resignaling*. Finally, reallocations of project funding within 2013 are required to modify costs of projects that have been fully completed either under or over budget. This has occurred due to unexpected or late contract payments after project completion or as a result of projects being completed under budget. Overall, these budget adjustments result in a net zero impact to 2013 Approved Capital Budget and debt funding.

**Toronto Water** requested 2013 budget adjustments detailed in a stand-alone accompanying report entitled "Toronto Water 2013 Year-End Capital Budget Adjustments and Accelerations / Deferrals". The 2013 Capital Budget in-year adjustments requested realign project costs and cash flows with the 2013 actual expenditures since Toronto Water has reduced the contingency amounts for many of their multi-year sub-projects that have reached substantial completion in 2013. Recommended in-year budget adjustments reduce Toronto Water's 2013 Approved Capital Budget as well as equivalent funding contributions required from Toronto Water Capital Reserve Funds by \$27.972 million. Toronto Water also requested in-year adjustments realigning cash flows and project costs with actual spending on large scale multi-year projects including the *Automated Meter Replacement (AMR) Program*, the *Spadina River Watermain Construction project* and *New Service Connections project*, and a number of smaller projects such as *Water Service Replacements* and *Road Restoration*, where favourable

weather conditions accelerated construction schedules or the City experienced higher demand from developers and general public. The higher spending on these projects was offset by delayed spending and/or favourable pricing on other projects.

### **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 3 details completed projects for various City Programs and Agencies that will be closed

A capital project is considered fully closed when all its subsidiary projects/subprojects 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.

As detailed in Appendix 3, at the end of the fourth quarter, 155 capital projects are fully completed and will be closed. These fully completed projects have total approved project costs of \$1.315 billion and actual spending of \$1.169 billion, representing a total saving of \$145.749 million, with \$70.130 million funded by debt, \$20.468 million funded by various reserve and reserve funds and \$55.150 million from other funding sources.

The number and value of the fully completed and closed projects are mainly due to the following programs:

***Transportation Services*** fully completed 21 project with total project cost of \$737.793 million, actual expenditure of \$650.423 million and savings of \$87.370 million.

***Toronto Transit Commission*** fully completed 32 projects with total project cost of \$193.679 million, actual expenditure of \$169.256 million and savings of \$24.423 million.

***Toronto Water*** fully completed 26 projects with total project cost of \$253.028 million, actual expenditure of \$233.410 million and savings of \$19.618 million.

In addition to fully completed projects, 727 capital sub-projects are completed within 181 Council approved projects. These projects will remain open to allow continuation of capital work and residual funds will be used to complete remaining phases or sub-projects of the approved capital projects. Actual spending on these completed capital activities is \$1.458 billion. These partially closed capital projects had a combined approved total project cost of \$6.799 billion and total life-to-date spending of \$3.929 billion. The remaining Council approved funding available for outstanding phases or sub-projects is \$2.870 billion.

Closing of the completed capital projects in a timely manner identifies savings and allows staff to redirect and return funding to their original source. This then frees scarce funds for re-use in the future budgets. It is also noted that the closure of projects / subprojects enable 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 to be closed will be forwarded to the Accounting Services Division which will preclude any further processing of transactions against them. Accounting Services staff will ensure that all expenditures for the identified capital projects/sub-projects are fully funded prior to closure.

## **CONTACT**

Josie La Vita, Director  
Financial Planning  
Tel: 416 397-4229, Fax: 416 397-4465

Andy Cui, Manager  
Financial Planning  
Tel: 416 397-4207, Fax: 416 397-4465

## **SIGNATURE**

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Roberto Rosini  
Deputy City Manager and Chief Financial Officer

## **ATTACHMENTS**

Appendix 1      2013 Carry Forward Funding Adjustments  
Appendix 2      2013 In-Year capital Budget Adjustments  
Appendix 3      Capital Projects to be closed