



REPORT FOR ACTION

Capital Variance Report for the Three-Month Period Ended March 31, 2017

Date: April 25, 2017

To: Budget Committee and Executive Committee

From: Deputy City Manager & Chief Financial Officer

Wards: All

SUMMARY

The purpose of this report is to provide City Council with the City of Toronto capital spending for the three month period ended March 31, 2017, as well as projected actual expenditures to December 31, 2017. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2017 Approved Capital Budget and changes to previously approved 2016 Carry Forward Funding.

The report also details the 36 completed capital projects with a combined budget of \$322.090 million that are ready to be closed. They have been completed under budget, realizing a saving of \$2.305 million. The savings which includes \$0.030 million in debt funding, \$0.940 million in reserves/reserve funds funding, \$0.086 million in development charges funding and \$1.249 million in recoverable debt funding will be returned to their original funding sources.

Table 1: Three Months and Year-End Projected Spending Rate

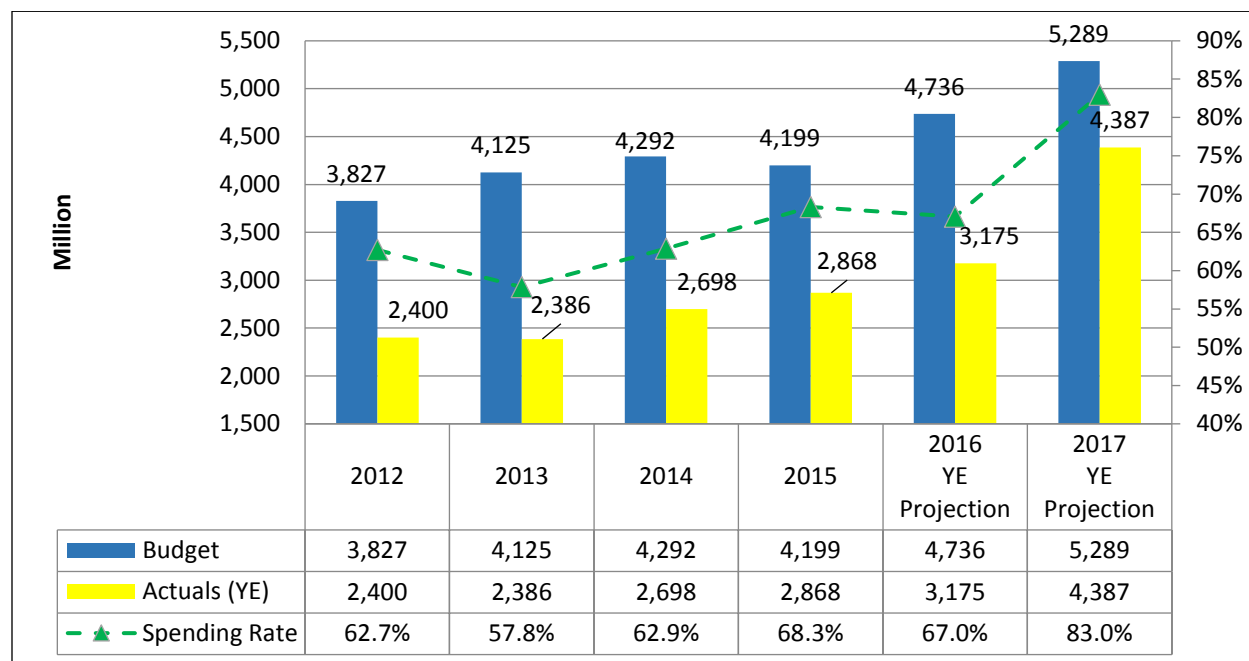
	2017 Approved Budget	Actual Expenditures - January to March		Projected Actual Expenditures at Year-End	
		(\$M)	%	(\$M)	%
Tax Supported	4,157.2	181.5	4.4%	3,403.3	81.9%
Rate Supported Programs:	1,131.8	104.3	9.2%	984.1	86.9%
TOTAL	5,288.9	285.9	5.4%	4,387.4	83.0%

The spending pattern for the first three months of 2017 is consistent with prior years at a low spending rate of 5.4% reflecting the start-up of capital activities. As detailed by City Program and Agency in Appendix 1, expenditures to year-end are expected to reach \$4.387 billion or 83.0% of the total 2017 Approved Capital Budget. Of these adjustments, 29 of the 33 City Programs and Agencies have year-end projected

spending rate in excess of 70%: Tax Supported Programs project a spending rate of 81.9% while Rate Supported Programs project spending rate of 86.9% by year-end.

Figure 1 below shows that the City's capital spending at year-end is expected to reach \$4.387 billion or 83.0% of 2017 Council Approved Capital Budget.

Figure 1: 2012 - 2017 Capital Spending Rate



Both the 2017 Approved Capital Budget (including carry forward funding) and actual spending have been trending upward at a relatively steady rate over the last 5 years. Namely, Toronto Transit Commission increased actual spending from 71.8% in 2015 and is projecting spend over 89.0% in 2017; Facilities Management increased spending from 47.8% in 2015 and is projecting to spend 65.5% in 2017; Transportation Services increased spending from 69.5% in 2015 to a projected spending rate of 74.6% in 2017 and Park, Forestry and Recreation increased spending from 50.5% in 2015 to a projected spending rate of 61.7% in 2017.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. Council receive for information the list of 36 completed capital projects/sub-projects to be closed as detailed in Appendix 2 that results in a total combined project budget savings of \$2.451 million.
2. Council approve in-year budget adjustments to the 2017-2026 Approved Capital Budget and Plan detailed in Appendix 3 with no incremental impact on debt funding.

3. Council approve additional carry forward funding from 2016 detailed in Appendix 5 and that the 2017 Approved Capital Budget for respective City Programs and Agencies be adjusted accordingly with no incremental impact on debt as follow:

a) The 2017 Approved Capital Budget for Solid Waste Management Services be increased by \$0.100 million funded from the reserve fund (\$0.030 million) and recoverable debt (\$0.070 million) in 2016 carry forward funding.

b) The 2017 Approved Capital Budget for Exhibition Place be increased by \$0.083 million funded from the reserve fund in 2016 carry forward funding.

c) The 2017 Approved Capital Budget for Information & Technology be reduced \$2.932 million funded from prior years Capital from Current (CFC) funding to adjust overstated previously approved 2016 carry forward funding.

4. Council approve the capital funding adjustments included in Appendix 7 of this report to replace \$78.749 million in past interim funding of growth-related costs, that were funded from the Water & Wastewater Capital Reserve Funds, with funding from the Water & Sewer Development Charge Reserve Funds in order to better utilize eligible development charge funding, as included in the Development Charges Background Study approved by Council in 2013.

FINANCIAL IMPACT

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the three months ended March 31, 2017 as well as projected spending to year-end.

Table 2: Three Months Variance and Projection to Year-End

	2017 Approved Budget	Actual Expenditures - January 1 to March 31, 2017		Projected Actual Expenditures at Year-End	
		(\$M)	%	(\$M)	% of Plan
Tax Supported Programs:					
Citizen Centred Services - "A"	403.3	12.4	3.1%	267.3	66.3%
Citizen Centred Services - "B"	653.7	24.5	3.7%	486.3	74.4%
Internal Services	485.4	31.5	6.5%	337.0	69.4%
Corporate Initiatives	202.2	0.0	0.0%	171.9	85.0%
Other City Programs	12.1	1.2	10.0%	11.0	91.5%
Sub Total City Operations	1,756.6	69.6	4.0%	1,273.5	72.5%
Agencies	2,400.6	111.9	4.7%	2,129.9	88.7%
Sub Total - Tax Supported	4,157.2	181.5	4.4%	3,403.4	81.9%
Rate Supported Programs:					
Solid Waste Management	129.8	7.8	6.0%	127.1	97.9%
Toronto Parking Authority	158.5	23.7	14.9%	138.5	87.4%
Toronto Water	843.5	72.8	8.6%	718.4	85.2%
Sub Total Rate Supported	1,131.8	104.3	9.2%	984.1	86.9%
Total	5,288.9	285.9	5.4%	4,387.4	83.0%

Total expenditures for Tax and Rate Supported Programs and Agencies for the first quarter of 2017 are \$0.286 billion representing 5.4% of their combined 2017 Approved Capital Budget. Actual spending at the end of the three month period is in line with previous years. Projected expenditures are anticipated to reach \$4.387 billion or 83.0% by year-end.

Attached to the report are appendices which detail the following:

- Appendix 1 summarizes first quarter spending and year-end projected spending rates by City Program and Agency.
- Appendix 2 details completed projects for various City Programs and Agencies that will be closed in the first quarter of 2017.
- Appendix 3 details the in-year budget adjustments to the 2017 Approved Capital Budget.
- Appendix 4 provide explanation on the progress of the capital work for Major Projects.
- Appendix 5 details the changes recommended to previously approved 2016 carry forward funding.
- Appendix 6 provides dashboards for each City Program and Agency for the three months ended March 31, 2017 as well as projections to year-end.
- Appendix 7 details the capital funding adjustments for Toronto Water recommended in Recommendation #4.

Dashboard Approach

The dashboards for City Programs and Agencies, set out in Appendix 6, provide greater transparency and insight into the financial performance of all City Programs and Agencies, greater accountability with better performance measurement and monitoring to ensure Programs and Agencies are meeting targets, and improved information to enable Councillors to make informed decisions based on easy to understand results. The dashboards include "alert" indicators with Green, Yellow or Red colours that measure the percentage of capital spending with the criteria based on the following net budget variances:

Green – 70%-100% or more of Budget Spent

Yellow – Between 50% and 70% of Budget Spent

Red – Less than 50% of Budget Spent or more than 100% of Budget Spent

DECISION HISTORY

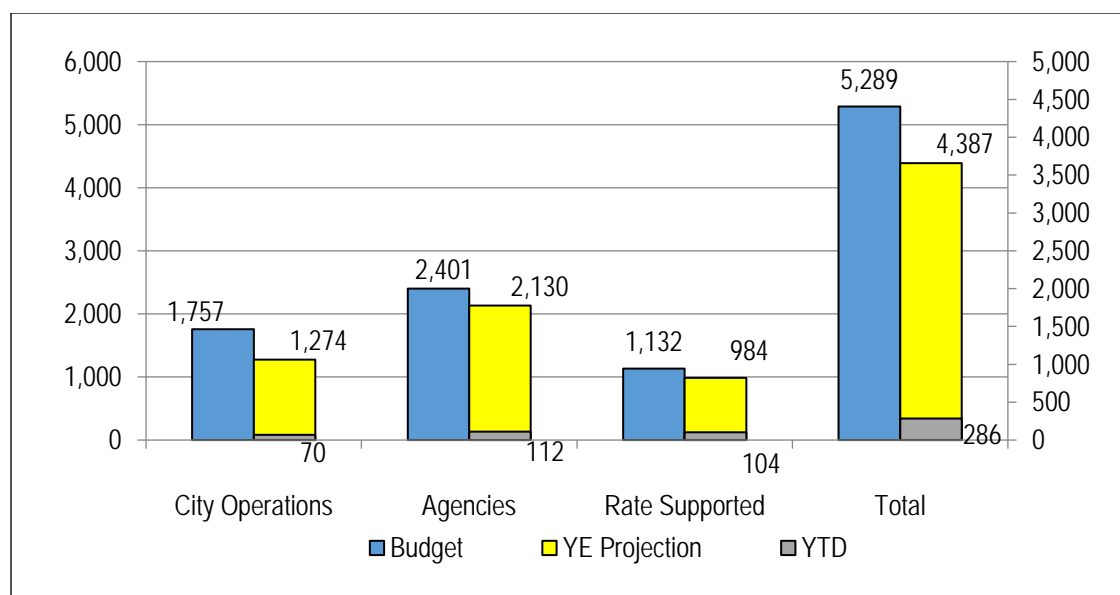
This report is provided pursuant to good business practices and budgetary control. As part of the City's financial management and accountability framework, capital variance reports are submitted to Committees and Council on a quarterly basis in order to provide capital spending performance as an indicator of how City Programs and Agencies are progressing on the Capital work in 2017, and on an exception basis, to identify issues that require direction and/or decisions from Council.

COMMENTS

At its meeting of December 13-14, 2016, Council approved a 2017 Rate-Supported Capital Budget of \$932.391 million and on February 15, 2017, Council approved a 2017 Tax Supported Capital Budget of \$2.776 billion. The 2017 Rate-Supported Capital Budget includes \$729.565 million for Toronto Water, \$99.049 million for Toronto Parking Authority and \$103.777 million for Solid Waste Management Services. Including the additional 2016 carry forward funding for all City Tax and Rate Programs and Agencies, the Adjusted Capital Budget for 2017 is \$5.289 billion.

Figure 2 below summarizes year-to-date and projected spending to year-end.

Figure 2: 2017 Capital Budget, Year-to-Date and Year-End Projection

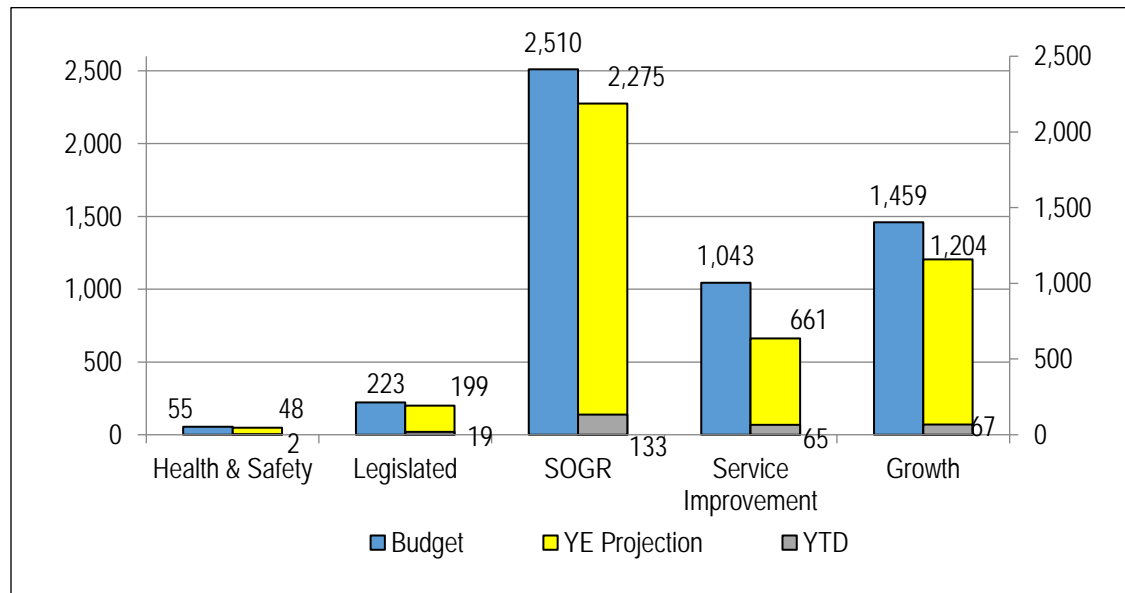


The City's capital work tends to accelerate in the latter part of the year. This is evident in the increased spending projections to 2017 year-end, which indicate total spending of \$4.387 billion or 83.0% of the 2017 Approved Capital Budget.

The City's capital program encompasses 5 categories of capital work: Health & Safety projects (HS); Legislated projects (LE); State of Good Repair projects (SOGR); Service Improvement projects (SI); and Growth Related projects (GR).

Figure 3 below compares the 2017 Approved Budget, year-to-date spending and year-end projection for each project category.

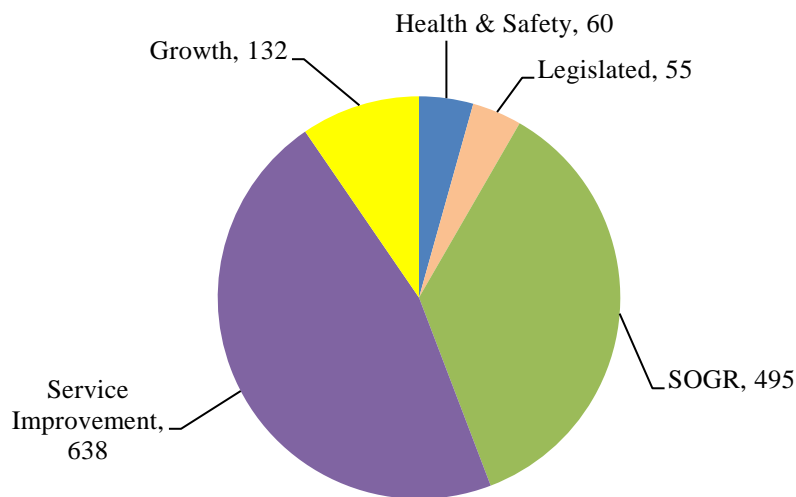
Figure 3: 2017 Approved Budget and Spending by Project Category (\$5.289 B)



Spending for Health & Safety (\$47.666 million) and Legislated projects (\$199.138 million) expected to be completed by year-end is projected to be at 87.4% and 89.6% respectively. State of Good Repair (SOGR) accounts for \$2.510 billion of the City's 2017 Approved Capital Budget and it is estimated that by year-end \$2.275 billion or 90.7% of capital funding allocated to SOGR projects will be spent. In addition, it is anticipated that \$661.220 million in approved Service Improvement projects funding and \$1.204 billion for Growth Related projects will be spent by year-end representing a spending rate of 63.4% and 82.6%, respectively.

As illustrated in Figure 4 below, the City has a total of 1,380 active capital projects by the end of the first quarter of 2017.

Figure 4: 2017 Active Projects (1,380)



Of this total, 60 or 4.3% are Health & Safety projects, 55 or 4.1% are Legislated projects, 495 or 35.8% are categorized as State of Good Repair (SOGR) projects, 638 projects or 46.2% are approved Service Improvement projects and 132 projects or 9.6% are Growth Related projects.

A detailed explanation on the progress of Major Projects can be found in Appendix 4.

Further detail on the progress of all approved capital projects for each City Program and Agency can be found in Appendix 6 of this report.

Closed Capital Projects

The City's Financial Control By-Law stipulates that the Chief Financial Officer must "submit a report to Council on an annual basis detailing all capital projects closed during the year". The City reports quarterly on the disposition of closed projects.

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. Appendix 2 details projects that have been completed by various City Programs and Agencies which will be closed in the first quarter of 2017 with a total budget of \$322.090 million and actual expenditures of \$319.785 million. This results in savings of \$2.305 million which will be returned to their original funding sources.

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.

Closing of completed capital projects in a timely manner identifies savings and allows funding to be returned to its original source. This then frees scarce funds for re-use in future budgets. It is also noted that the closure of projects / subprojects enables staff to better focus its attention on active projects, and supports better, more efficient and accurate variance reporting. Accounting Services staff will ensure that all expenditures for the identified capital projects/sub-projects are fully funded prior to closure.

Table 3: 2017 Closed Projects

Closed Projects Q1	Tax Supported Programs	Rate Supported Programs	All City Programs/Agencies
# of Closed Projects	33	3	36
Project Budget (\$M)	317.455	4.635	322.090
Actual Expenditure (\$M)	316.934	2.851	319.785
Savings (\$M)	0.521	1.784	2.305
Savings in Debt Funding (\$M)	0.030	0.000	0.030

In addition to above fully completed projects, 24 capital sub-projects have been completed within 19 Council approved projects. These partially closed capital projects have a combined approved total project budget of \$563.521million and total life-to-date spending of \$549.906 million. These 19 projects will remain open to allow continuation of capital work and the residual funds of \$13.615 million will be used to complete the remaining phases or sub-projects of the approved capital projects.

In-Year Budget Adjustments

City Council approval is required for the in-year budget and technical adjustments detailed in Appendix 3. It is recommended that Council approve the following adjustments:

An adjustment to the 2017 – 2026 Capital Budget and Plan for **Economic Development and Culture (EDC)** is required to transfer \$0.928 million of debt funding from *Casa Loma Exterior Restoration* project and the *John St Roundhouse Machine Shop* project to the high priority *St. Lawrence Centre for the Arts Roof* project. The *Casa Loma Restoration* project can now be financed from the Casa Loma Capital

Maintenance Reserve Fund, as rental payments from the operator are adequate to support this work and the *Roundhouse* project will be deferred. To complete the *Guild Revitalization site* servicing and perform required maintenance on the historic cabins and the *Greek Theatre* on the same timeline as other work on the *Guild site*, *Cedar Ridge Studio Improvements* will be deferred. \$0.030 million of debt funding will be transferred from the *Commercial Façade Improvement Program* to the *Mural Program* to meet the increased demands.

The 2017 – 2026 Capital Budget and Plan for **EDC** is required to be decreased for its *Restoration and Preservation of Heritage Elements* project, *Outdoor Public Art 2015* project by \$0.050 million gross as the project came in under budget and the BIA contribution is no longer required. The EDC contribution of \$0.050 million fully funded by Section 37 community benefit contributions for public art on the Liberty Pedestrian Bridge is requested now to meet the timing of the City's overall bridge project.

An adjustment to the 2017 – 2026 Capital Budget and Plan for **City Planning** is necessary to align Council approved future year commitments with projected cash flow requirements related to the provision of legal services associated with the approval of OPA 231. The timing of the future year cash flow commitments in project CUR 901-07 Five Year Official Plan Review will be adjusted. The Purchase Order Amendment has been approved by Planning and Growth Management Committee at its meeting of May 3, 2017. There is no change to the overall 10 year Capital Plan or Project cost. The 2018 Capital Process will align project cash flows for the Five Year Official Plan Review project to anticipated year of expenditure based on revised project timing and ensuring that annual program debt targets are met.

It is recommended to transfer the Capital Budget and project costs for the *Administrative Penalty System (APS)* capital project from the **Corporate Initiatives** capital program to the **Facilities, Real Estate, Environment & Energy (FREEE)** capital program. Corporate funding was approved for the APS project across multiple divisions within the city. Since the funding relates to one-time capital construction costs to establish screening offices for the administration of screening reviews, for which Facilities Management (FM) will be responsible, it is recommended to transfer the funds to FREEE. The financial impact is an increase of \$3.0 million in 2017 to the 2017 Council Approved Capital Budget for FREEE funded by debt with a corresponding decrease to the 2017 Council Approved Corporate Initiatives Capital Budget. This change would not result in any adjustments to annual cash flow or project costs.

A transfer of the 2017 – 2026 Council Approved Capital Budget and Plan is requested to reallocate \$1.5 million of project costs from the **Corporate Initiatives** capital program to the **Facilities, Real Estate, Environment & Energy (FREEE)** capital program for *Public Transit Infrastructure Fund (PTIF)* funded projects related to Union Station, as detailed in Appendix 3, as these projects will be led and managed by FREEE.

An adjustment for timing of the approved funding sources of *Union Station Revitalization (USR)* initiative for **Facilities, Real Estate, Environment & Energy (FREEE)** is necessary to reflect anticipated timing of actual available funds. This recommendation defers \$9.835 million Union Station Reserve funding (XR2501) from 2017 to 2018 with a corresponding offset from recoverable debt funding to align reserve fund withdrawals

with inflows that are expected in 2018 for the *Union Station Revitalization (USR)* initiative. There is no change to the project costs, cash flows or funding sources within the 10-year Capital Budget and Plan.

A reallocation of **Fleet Services'** 2017 Council Approved Capital Budget in the amount of \$0.392 million from anticipated underspent projects is required to create a new project for acquisition of tools and equipment. There is no incremental impact to total 2017 Approved Budget for Fleet Services and this reallocation is offset by funds transfer from *Fleet Replacement*, *Fuel Site Closures* and *Fleet Management System & Fuel System Integration* projects.

Fleet Services' 2017 Capital Budget is to be adjusted in-year in order to reflect reduced funding of \$0.500 million to *Fire Services – Fleet Replacement* project from \$7.203 million to \$6.703 in accordance with the reduction of Fire Services' Contribution to Vehicle Reserve during the 2017 Budget process.

Reallocating \$0.400 million cash flow in the 2017-2026 Council Approved Capital Budget and Plan for **Information & Technology (I&T)** is recommended from the *Enterprise Mobility Platform* project in 2018, which is experiencing delays relating to site plans, to the *On-Line Portal Services* project, as this project is ahead of schedule in 2017. The acceleration and deferral of funding will not impact approved project costs or debt levels.

The 2017 – 2026 Council Approved Capital Budget and Plan for **Toronto Public Library** is to be adjusted to accelerate funding from 2018 into 2017 for the *Albion Library* project of \$0.500 million as construction for this project is proceeding ahead of schedule. A budget transfer for the *St Clair/Silverthorn* project of \$0.650 million is required as the tender for the renovation exceeds the approved project budget. These have been offset by a deferral of cash flow for the *Bayview Bessarion Library* \$0.500 and *Multi-Branch SOGR* \$0.650 million as these projects are experiencing delays relating construction/project complexities. The acceleration and deferral of funding do not impact approved debt levels.

An adjustment to the 2017 – 2026 Council Approved Capital Budget and Plan for **Toronto Transit Commission** is required to reflect budget reallocations within programs to accommodate cost estimate increases (scope more refined). The net impact is zero.

The 2017 – 2026 Council Approved Capital Budget and Plan for **Solid Waste Management Services** is to be adjusted in order to correctly track annual expenses for chemists provided by Toronto Water for the Perpetual Care of Landfills project. This administrative adjustment will create a 2017 account and move \$3.165 million from the old 2016 account to the new account.

In addition, it is recommended that Council approve an adjustment to the 2017 – 2026 Council Approved Capital Budget and Plan for **Solid Waste Management Services** to correct the capital accounts within the *Transfer Station Asset Management* project. This adjustment in the amount of \$15.056 million in project cost will re-align the project cost

and cash flows to the correct accounts in order to post purchase orders to move forward with urgent capital works.

Toronto Water, in cooperation with Corporate Finance and Financial Planning, identified that approximately \$78.749 million in DC funding related to the growth-related share of prior year water and wastewater projects can be applied to those projects to utilize development charge funding as included in the Development Charge Background Study approved by Council in 2013. This funding will replace past interim funding of the growth-related shares of eligible capital projects. The past interim funding was from the Water (\$54.175 million) and Wastewater (\$24.574 million) Capital Reserve Funds.

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SIGNATURE

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Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Appendix 1 2017 Capital Variance Summary for the Three Months Ended March 31, 2017
Appendix 2 Capital Projects for Closure
Appendix 3 In-Year Adjustments for the Three Months Ended March 31, 2017
Appendix 4 Major Capital Projects
Appendix 5 Additional Carry Forward
Appendix 6 Capital Dashboard for Programs/Agencies
Appendix 7 Toronto Water Funding Revision