



REPORT FOR ACTION

Capital Variance Report for the Nine-Month Period Ended September 30, 2018

Date: December 3, 2018

To: City Council

From: 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 nine month period ended September 30, 2018, as well as projected actual expenditures to December 31, 2018. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2018 Approved Capital Budget.

At its meeting on July 23, 2018 City Council adopted item EX36.4 "Delegation of Authority for the Remainder of the 2014-2018 Council Term" that provided delegated authority to the Chief Financial Officer to approve capital budgets adjustments in the amount of not more than \$3 million. A list of in-year budget adjustments approved as part of the Chief Financial Officer's delegated authority can be found in Appendix 4a of this report.

As at September 30, 2018 the City's capital expenditure was \$2,101 or 35.6% of the 2018 capital budget of \$5,904 and is projecting to expend \$4,007 or 67.9% by December 31, 2018.

Table 1: Capital Variance Summary

	2018 Approved Budget	Actual Expenditures - Q3 YTD		2018 Approved Budget	Projected Expenditures - January to December	
	\$M	\$M	%	\$M	\$M	%
City Operations	2,271	642	28.3%	2,271	1,357	59.8%
Agencies	2,455	1,037	42.3%	2,455	1,824	74.3%
Subtotal - Tax Supported	4,725	1,679	35.5%	4,725	3,181	67.3%
Rate Supported	1,178	422	35.8%	1,178	826	70.1%
TOTAL	5,904	2,101	35.6%	5,904	4,007	67.9%

Tax Supported Programs project a spending rate of 67.3% while Rate Supported Programs project a spending rate of 70.1% by year-end. The projected year-end spending rates presented in this report are based on the submissions from each Program and Agency, and as such, the preparation of this report has been based on this information.

The report also reports 9 completed capital projects with a combined budget of \$54.537 million that are ready to be closed. They have been completed under budget, realizing permanent underspending of \$10.100 million with associated reserves/reserve funding which will be returned to the originating reserve/reserve fund accounts.

RECOMMENDATIONS

The Chief Financial Officer recommends that:

1. Council approve in-year budget adjustments to the 2018-2027 Approved Capital Budget and Plan as detailed in Appendix 4 that result in no incremental impact on debt financing.

FINANCIAL IMPACT

Total capital expenditure in the first nine months of 2018 total \$2.101 billion and year-end expenditures are anticipated to increase to \$4.007 billion or 67.9% of the total 2018 Approved Capital budget. 17 of the 31 City Programs and Agencies have projected year-end spending rate in excess of 70%.

Appendix 1 summarizes the spending in the first three quarters and year-end projected spending rate by City Program and Agency.

Projects to be closed

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. 43 capital projects were completed in the first nine months of 2018 that have a combined budget of \$131.766 million. They have been completed under budget, with permanent underspending of \$15.940 million realized. The permanent underspending has associated funding of \$0.859 million in debt, \$14.888 million in reserves/reserve fund contributions, \$0.005 million in Provincial Grants, \$0.025 million in Development Charges, and \$0.164 million in Other Revenue.

DECISION HISTORY

At its meeting of December 5-8, 2017, Council approved a 2018 Rate-Supported Capital Budget of \$1.015 billion and on February 12, 2018, Council approved a 2018 Tax Supported Capital Budget of \$2.995 billion. The 2018 Rate-Supported Capital Budget provides \$865.221 million for Toronto Water, \$57.241 million for Toronto Parking Authority and \$92.801 million for Solid Waste Management Services. Reflecting in-year budget adjustments for all City Tax and Rate Programs and Agencies, the adjusted Capital Budget for 2018 is currently \$5.904 billion.

At its meeting on July 23, 2018 City Council adopted item EX36.4 "Delegation of Authority for the Remainder of the 2014-2018 Council Term" that provided delegated authority to the Chief Financial Officer to approve capital budgets adjustments in the amount of not more than \$3 million, and directed the City Manager or designate to report back to the appropriate standing committee on the exercise of any delegated authority items. As part of the report back to City Council, a list of in-year budget adjustments approved as part of the Chief Financial Officer's delegated authority can be found in Appendix 4a of this report

COMMENTS

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the nine months ended September 30, 2018 for major service clusters.

Table 2: Capital Variance Summary

	2018 Approved Budget	Actual Expenditures - as of September 30, 2018		2018 Approved Budget	Projected Expenditures - as of December 30, 2018	
	\$M	\$M	%	\$M	\$M	%
Tax Supported Programs:						
Community and Social Services	642	238	37.1%	642	471	73.4%
Infrastructure and Development Services	809	201	24.9%	809	496	61.3%
Corporate Services	529	185	35.0%	529	340	64.2%
Finance and Treasury Services	32	10	30.9%	32	16	48.5%
Corporate Initiatives	248	2	1.0%	248	27	10.9%
Other City Programs	10	5	46.0%	10	8	77.3%
Sub Total - City Operations	2,271	642	28.3%	2,271	1,357	59.8%
TTC	2,228	964	43.3%	2,228	1,637	73.4%
Other Agencies	226	73	32.4%	226	187	82.7%
Sub Total - Tax Supported	4,725	1,679	35.5%	4,725	3,181	67.3%
Rate Supported Programs:						
Solid Waste Management	126	44	34.7%	126	69	54.8%
Toronto Parking Authority	105	11	10.5%	105	43	40.6%
Toronto Water	947	367	38.8%	947	714	75.4%
Sub Total - Rate Supported	1,178	422	35.8%	1,178	826	70.1%
Total	5,904	2,101	35.6%	5,904	4,007	67.9%

City Programs and Agencies project year-end capital expenditures of \$4.007 billion or 67.9% of the 2018 Approved budget. The projected spending rate in 2018 is driven broadly by major capital spending programs and agencies such as Toronto Transit Commission (TTC) and Transportation Services.

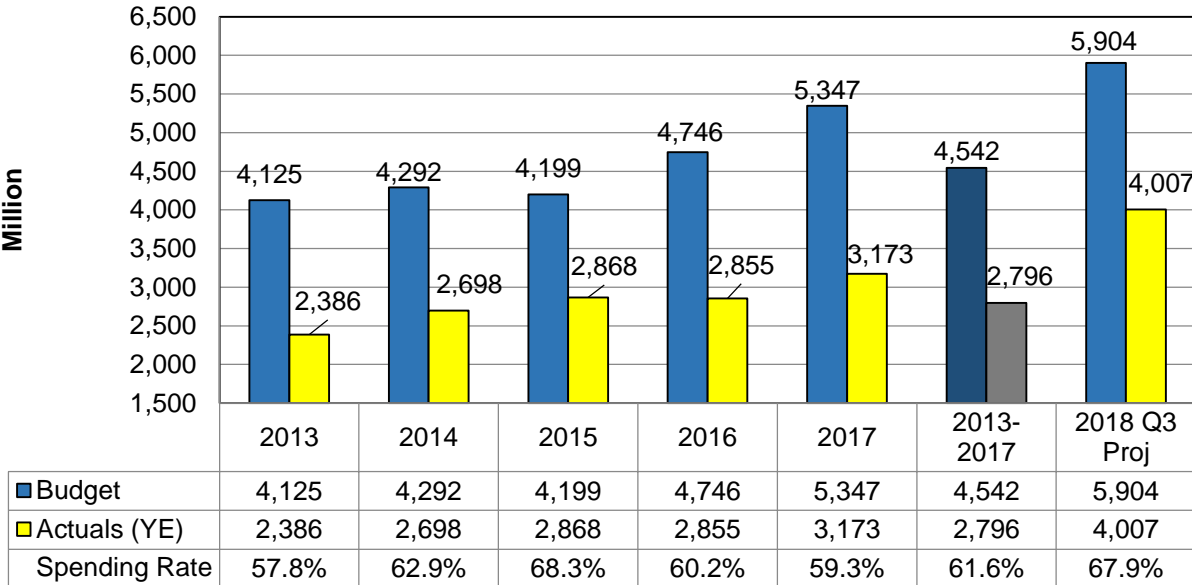
TTC is projecting to spend \$1.637 billion or 73.4% of its 2018 Approved Capital Budget. The largest expenditure of \$221 million is expected to be on the purchase of buses. This project is funding by the Public Transit Infrastructure Fund (PTIF) and is expected to be completed on track to schedule to meet the PTIF program timeframe.

While Transportation Services is on track with most of its major projects, it is experiencing a major delay in one of its biggest projects, the F.G.Gardiner project due to contract award issues. As a result Transportation Services is expected to spend 63% of its Approved 2018 Capital Budget.

Also notably, Metrolinx Cost Sharing project with a planned budget of \$165 million or 66% of the 2018 Approved Capital Budget under Corporate Initiatives was originally a PTIF project. The project is now being delivered by Metrolinx, as a result the funding of \$165 million will be used by the Toronto Transit Commission for additional bus purchases.

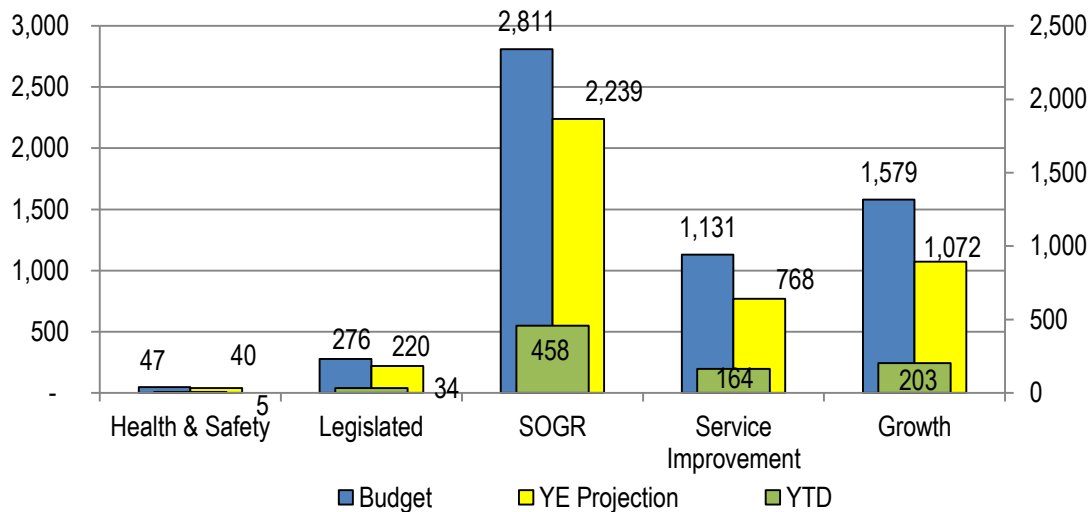
Figure 1 below compares the actual year-end spending rate in each of the years 2013 to 2017, showing the 5 year average from 2013 to 2017, and the projected 2018 year-end spending rate detailed in this report. Spending rate is the actual capital spending amount as a percentage of the full year budget including in-year adjustments and carry forward from prior years' unspent budget.

Figure 1: 2013 - 2017 and 2018 Projected Capital Spending Rate



The City's capital program encompasses 5 categories of capital work: Health & Safety projects; Legislated projects; State of Good Repair projects; Service Improvement projects; and Growth Related projects. Figure 2 below compares the 2018 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2018 Approved Budget and Spending by Project Category (\$Millions)



State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.140 billion and also has the highest projected spending rate of 76.1% which is in line with the City's continued emphasis on SOGR investment. Health & Safety and Legislated projects have the next highest projected spending rate of 73.1% and 74.8% respectively. It is also anticipated that about 60% of the approved Capital Budget allocated to Service Improvement and Growth Related projects will be spent by year-end which represent a lower spending rate than the other categories. This lower spending rate is common for these categories of projects which tend to be more complex, include various stakeholders and have dependencies on other factors.

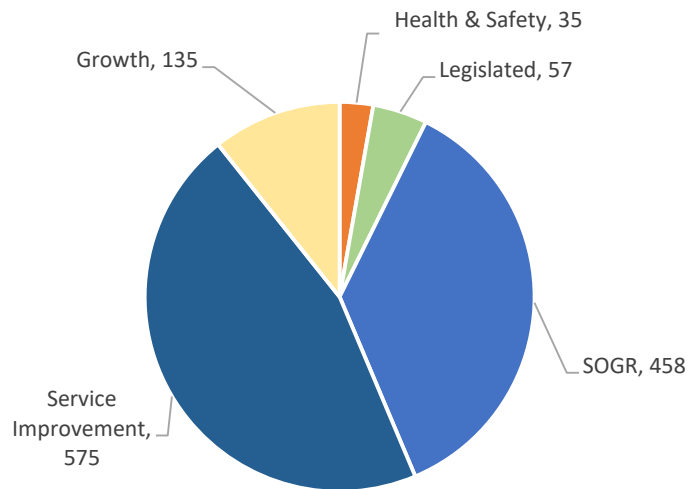
Table 5 below outlines 2018 City's capital expenditure and spending rate by project category.

Table 5: City Budget and Spending by Project Category

Project Category	Budget	YE Projection	YTD
Health & Safety	47	40	5
Legislated	276	220	34
SOGR	2,811	2,239	458
Service Improvement	1,131	768	164
Growth	1,579	1,072	203

As illustrated in Figure 3 in the following page, the City has a total of 1260, previously approved and new 2018 capital projects, open at the end of the third quarter of 2018.

Figure 3: 2018 Open Projects (1,260)



Service Improvement projects account for the majority of open projects totalling 575 or 45% of the total City's capital projects. SOGR projects account for 458 or 36% of all capital projects which have increased from 2017 as a result of new investments approved in the 2018 Capital Budget.

A detailed explanation on the progress of major capital projects can be found in Appendix 3 of this report. Further detail on the progress of all approved capital projects for each City Program and Agency can be found in Appendix 5 of this report.

Closed Capital Projects in Q3

Closing of completed capital projects in a timely manner identifies underspending and allows funding to be returned to its original source to be reinvested in future budgets. Accounting Services staff will ensure that all expenditures for the identified capital projects/sub-projects are appropriately accounted for prior to closure.

Appendix 2 details 9 capital projects from the Tax Supported Programs that have been completed in the third quarter of 2018 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$54.537 million and actual expenditures of \$44.437 million. This results in permanent underspending of \$10.100 million for which the associated funding 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 debt. In accordance with the Financial 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.

Table 5 below outlines the savings from projects that have been completed in the first three quarters of 2018.

Table 5: Completed Projects for the first nine months of 2018

All City Programs/Agencies	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	YTD 2018
# of Closed Projects	34	0	9	43
Project Budget (\$M)	77.2	0.0	54.5	131.8
Actual Expenditure (\$M)	71.4	0.0	44.4	115.8
Underspending (\$M)	5.8	0.0	10.1	15.9
Underspending in Debt Funding (\$M)	0.9	0.0	0.0	0.9

Recommended In-Year Budget Adjustments

City Council approval is required for in-year budget adjustments detailed in Appendix 4. It is recommended that Council approve the following in-year adjustments, as outlined below:

Economic Development and Culture

Adjustments are recommended to the Economic Development and Culture (EDC) 2018 Capital Budget which will result in an overall decrease in non-debt funding (BIA contribution) of \$0.226 million:

- The City has cancelled and re-awarded contracts for streetscape improvements on College Street due to contractor deficiencies. Additional design fees were incurred as a result of this which the BIA must be reimbursed for. Funding of \$0.127 million will be transferred from the *2017 Equal Share Funding Downtown Yonge* project to the *2018 College Promenade* project.
- The Danforth BIA no longer requires a City loan to fund their *pedestrian lighting* as the project cost is lower than planned. Debt funding of the *2017 Financed Funding The Danforth* project of \$0.096 million will be transferred to *2017 Equal Share Funding The Danforth* project. The project cost will be reduced by \$0.226 million.

- Additional funding of \$0.395 million is required for the *Theatre Passe Muraille Accessibility* project due to the heritage site and theatre schedule limitations. As significant permanent cost savings were realized in the *St. Lawrence Centre Roof* project, debt funding of \$0.395 million will be transferred to the *Theatre Passe Muraille Accessibility* project to fund AODA requirements.

Parks, Forestry & Recreation

Parks, Forestry and Recreation (PFR) is requesting authority to defer \$5.880 million in cash flow from 2018 to 2019 for four sub-projects where the design and requirements gathering process was delayed; and accelerate cash flow of \$5.880 million from 2019 to 2018 to fund state of good repair work on sports fields and community centres that are proceeding faster than planned:

- There will be no impact on debt requirements or Capital from Current funding as the \$5.880 million in cash flow approved in 2018 for the *Ferry Boat Replacement #1* and the, *IT-Enterprise Work Management System FY2018-2020*, and IT-Registration, Permitting & Licensing (CLASS), *Coronation Park Design & Implementation* sub-projects will be deferred to 2019, and an equivalent amount accelerated into 2018 for the *Sports Fields FY2017 & FY2018-2020* and *CAMP (SGR) Community Centres FY2018-2020* sub-projects, in order for the work to be completed in 2018

PFR also requires authority to increase the total project cost for the *CATS/TASS for Recreation Programming* by \$0.258 million, from \$3.419 million to \$3.677 million, and the related 2018 cash flow by \$0.258 million to \$3.150 million in order to fund additional development costs incurred by Corporate IT. This increase will be funded by a corresponding decrease in the project costs for the *IT Business Performance Management* sub-project of \$0.258 million, from \$3.525 million to \$3.267 million by reducing the 2018 cash flow. This project is complete and the residual funding is no longer required.

Waterfront Revitalization Initiative

A Technical amendment to Waterfront Revitalization Initiative's 2018 Capital Budget for the *Cherry Street Stormwater and Lakefilling* project to reduce a total of \$1.313 million from Provincial and Federal funding, and increasing the funding from the Water Capital Reserve by \$1.313 million. The amendment will align the City's budget to the Tri-Government Agreement signed in 2018 to reflect the agreed upon contributions from each of the three government bodies towards the project

Facilities, Real Estate, Environment & Energy

Adjustments are recommended to Facilities, Real Estate, Environment & Energy's 2018 – 2027 Capital Budget and Plan which will result in deferral of cash flows funding for various projects which will not impact on the total approved project costs or debt:

- An adjustment is recommended to defer the cash flow funding of \$22.4 million for the previously approved *St. Lawrence Market North Redevelopment capital* project from 2018 to \$14.4 million in 2019 and \$7.9 million in 2021 due to delays in the construction tender process. The funding sources are non-debt: \$5.455

million from recoverable debt, \$7.500 from the Capital Financing Reserve (XQ0011), \$2.525 million from the Provincial Offences Courts Reserve (XQ0704) and \$6.906 million from transfers from Parking Authority, resulting in zero debt impact.

- An adjustment is recommended to defer cash flow funding of \$9.2 million for the previously approved *Toronto Community Housing Corporation's Sustainable Energy Plan capital* project from 2018 to 2019, due to unforeseen structural remediation issues and delays in the windows manufacturing and installation process, fully funded by recoverable debt resulting in zero debt impact.

Fleet Services

An adjustment is recommended to Fleet Services' 2018-2027 Capital budget and Plan to accelerate \$5.180 million of planned 2019 cash flow funding to 2018 for the previously approved *SWM – Vehicle/Equipment Purchase – 201*, due to early delivery of units, and \$0.002 million to *Arena – Vehicle/Equipment Purchase – 2018*, to cover the price difference on purchase of an ice-resurfer for the total of \$5.182 million. The cash flow funding required to cover these accelerate costs will be offset by deferrals from 2018 to 2019 totalling \$5.182 million on multiple previously approved projects that are delayed and include:

- PF&R Fleet Replacement (\$2.429M)
- TPL Fleet Replacement (\$0.263M)
- Green Fleet Plan (\$0.120M)
- FREEE Fleet Replacement (\$0.970M)
- Fuel Sites Closure, Upgrades & Replacement (\$0.390M)
- TCHC Fleet Replacement (\$0.440M)
- Fleet – At-Large Purchase (\$0.570M)

The acceleration and deferral of cash flows will result in no impact to total approved project costs and have zero debt impact.

Toronto Transit Commission (TTC)

A deferral of \$6.009 million in cash flow funding from 2018 to 2019 is required for the *Subway Track* project to enable TTC to accelerate cash flow from 2019 to 2018 of \$2.871 million to fund the *Queen Street Streetcar Network Upgrades & BRT* project and \$3.1 million to fund the *On-grade Paving and Rehabilitation program* project to address the increase in estimated expenditures at Wellesley Stn, Long Branch and Kipling Stn.

Toronto Parking Authority

An adjustment is recommended to change the funding source for the *Bike Share Expansion* project from Toronto Parking Authority's retained earnings to contributions from the Public Realm Reserve Fund (XR1410) in the amount of \$2.0 million to be cash flowed in 2018. The project is funded in part by federal contributions under the Public Transit Infrastructure Fund Program (PTIF) of \$2.0 million, which requires a matching municipal contribution. At the time of approval of the 2018 Capital Budget for Toronto Parking Authority this was budgeted as TPA's retained earnings, however funds in the amount of \$2.0 million are available and eligible to be contributed from the Public Realm Reserve Fund.

In-Year Budget Adjustments Approved during Council Election Recess

In addition, on July 23, 2018 City Council adopted item EX36.4 "Delegation of Authority for the Remainder of the 2014-2018 Council Term" that provided delegated authority to the Chief Financial Officer to approve capital budgets adjustments in an amount of not more than \$3 million. As detailed in Appendix 4a, the in-year capital budget adjustments that have been approved to date under delegated authority by Council to Chief Financial Officer during the election recess.

CONTACT

Josie La Vita, Executive Director, Financial Planning
Tel: 416-397-4229, Fax: 416-397-4465, Email: Josie.Lavita@toronto.ca

Andy Cui, Manager, Financial Planning
Tel: 416-397-4207, Fax: 416-397-4465, Email: Andy.Cui@toronto.ca

SIGNATURE

Heather Taylor
Chief Financial Officer

ATTACHMENTS

Appendix 1 2018 Capital Variance and Projection Summary for the nine months ended September 30, 2018
Appendix 2 Capital Projects for Closure
Appendix 3 Major Capital Projects
Appendix 4 In-Year Adjustments for the nine months ended September 30, 2018
Appendix 4a In-Year Adjustments approved during Council Election Recess
Appendix 5 Capital Variance Dashboard by Program and Agency