

Capital Variance Report for the Year Ended December 31, 2018

Date: June 18, 2019
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

The purpose of this report is to provide City Council with the City of Toronto capital performance for the year ended December 31, 2018. Actual capital expenditures for 2018 totalled \$3.594 billion or 63.0% of 2018 approved Capital Budget of \$5.752 billion (see Table 1).

For the year-ended December 31, 2018, Tax Supported Programs and Agencies reported capital expenditures of \$2.799 billion representing 61.1% of their collective 2018 approved Capital Budget of \$4.578 billion. Rate Supported Programs reported capital expenditures of \$795.4 million, representing 67.7% of their collective 2018 approved Capital Budget of \$1.174 billion.

Table 1: Summary of Capital Spending

	2018 Approved Budget	2018 Actual Expenditure	
	(\$M)	(\$M)	%
City Operations	2,063	1,189	57.6%
Agencies	2,515	1,610	65.2%
Subtotal - Tax Supported	4,578	2,799	61.1%
Rate Supported	1,174	795	67.7%
TOTAL	5,752	3,594	62.5%

**2018 Approved Budget includes \$1.656 billion 2017 Carry Forward Funding*

The report also provides details on the 140 completed capital projects that have a combined budget of \$204.9 million that were completed in Q4 2018 and are ready to be closed. They have been completed with a total realized underspending of \$27.0 million. The permanent underspending which has associated funding of \$0.5 million in Federal Subsidy, \$2.6 million in Capital from Current, \$2.3 million in debt, \$4.9 million in reserves/reserve funds, \$16.6 million in Recoverable Debt and \$0.1 million in other

internal/external funds will be returned to their original Council approved funding sources.

In 2018, a total of 184 capital projects were completed with a combined capital budget of \$366.4 million and an actual combined expenditure of \$323.4 million, resulting in a total underspending of \$43.0 million returned to the original funding sources.

In 2018, 18 of 31 Programs/Agencies have spending rate lower than 70% of their total approved Capital Budget. Among them TTC, Transportation Services, Facilities Management, Real Estate, Environment and Energy (FREEE) and Waterfront Revitalization Initiative have the highest approved budget and the highest unspent amount and highlighted below:

Toronto Transit Commission (TTC)

The 2018 approved Capital Budget for TTC totals \$2.288 billion includes TTC Base Projects, Toronto York Spadina Subway Extension (TYSSE), Scarborough Subway Extension (SSE) and Transit Studies for Relief Line and Waterfront Transit. TTC base projects have a spending rate of 76.5% while YYSSE, SSE and Transit Studies have spending rate of 38.0%, 63.5% and 15.3% respectively. The low spending rate for YYSSE is due to deferral of property settlements, holdback releases, contingencies and claims resolutions, and for SSE is due to revised City acquisition plan while Transit Studies are new initiatives supporting future transit expansions as part of the PTIF program.

Transportation Services (TPS)

Transportation Services have a total 2018 Capital Budget of \$565.9 million and a year-end spending of \$313.9 million or 55.5% of its approved capital budget. Most of the \$252.0 million year-end under-spending is in capital projects that require third party coordination and/or funding, community consultation, issues with site conditions and/or are development/transit dependent.

Facilities Management, Real Estate, Environment and Energy (FREEE)

The FREEE Program has spent \$188.2 million or 57.7% of the total 2018 approved Capital Budget. Most of the \$137.8 million year-end under-spending is due to coordination of legal agreements, insufficient funding, client issues, coordination of building requirements across multiple stakeholders, coordination with other projects and delays in RFQ/RFP process.

Waterfront Revitalization Initiative (WRI)

The WRI Program spent \$60.3 million or 28.8% of total approved Capital Budget. \$149.0 million remained unspent primarily due to underspending in the *Portland Flood Protection Project* and the *Cherry Street Stormwater Lakefilling Project* caused by site conditions and winter shut-down.

Further details on the progress of all approved capital projects for each City Program and Agency can be found in Appendix 4 of this report.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Council receive this report and attached Appendices for information

FINANCIAL IMPACT

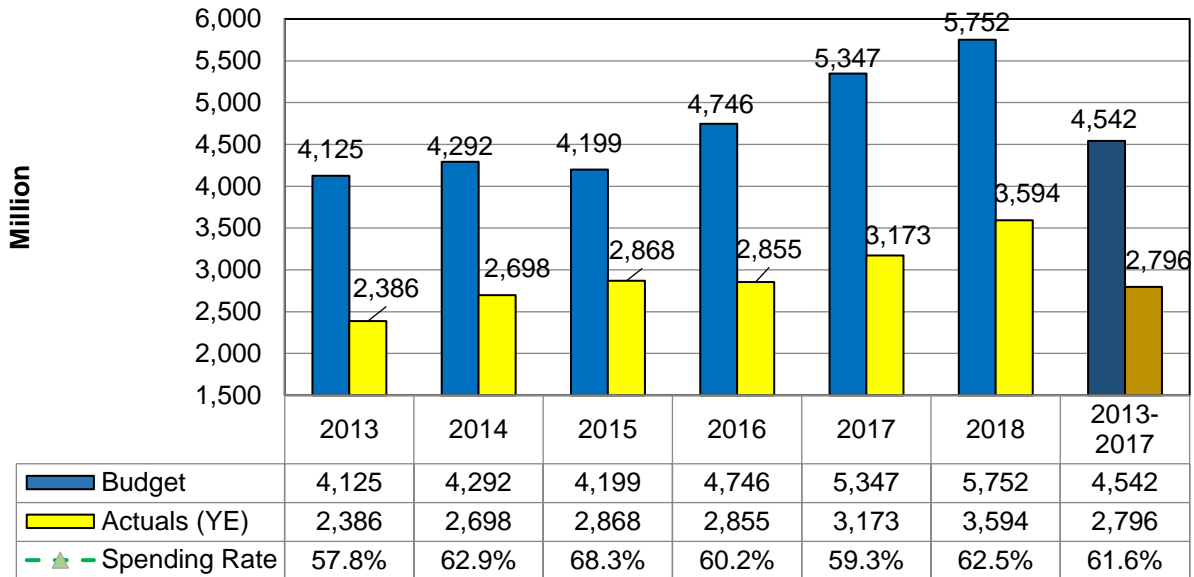
Total capital expenditure in 2018 totalled \$3.594 billion or 62.5% of the total 2018 Approved Capital budget. Table 3 below outlines capital spending for Tax and Rate Supported Programs for the year ended December 31, 2018:

Table 3: Capital Year-end spending by Cluster

	2018 Approved Budget	2018 Actual Expenditures	
	\$M	\$M	%
Tax Supported Programs:			
Community and Social Services	641	461	71.9%
Infrastructure and Development Services	800	386	48.2%
Corporate Services	496	316	63.7%
Finance and Treasury Services	32	13	40.3%
Corporate Initiatives	83	6	7.3%
Other City Programs	10	7	65.3%
Sub Total - City Operations	2,063	1,189	57.6%
TTC	2,288	1,489	65.1%
Other Agencies	226	121	53.6%
Sub Total - Tax Supported	4,578	2,799	61.1%
Rate Supported Programs:			
Solid Waste Management	122	64	52.7%
Toronto Parking Authority	105	15	14.7%
Toronto Water	947	715	75.6%
Sub Total - Rate Supported	1,174	795	67.7%
Total	5,752	3,594	62.5%

Figure 1 below shows the actual year-end spending rate from 2013 to 2018 as well as the 5-year average spending rate for 2013 to 2017.

Figure 1: 2013 - 2018 Capital Spending Rate



As illustrated in the Figure 1 above, both the approved Capital Budget (including carry forward funding) and actual capital expenditures have been steadily trending upwards over the last 5 years. Actual capital spending has increased from \$2.386 billion in 2013 to \$3.594 billion in 2018 and the spending rate for 2018 is slightly higher compared to the last 5 year's average.

The 2018 Capital Budget of \$5.752 billion represents the highest Capital Budget the City has ever had for its Tax and Rate Supported Programs. This reflects a Council approved Capital Budget of \$4.011 billion plus a combined adjustment for 2017 carry forward funding and 2018 in-year budget amendments of \$1.741 billion.

Appendix 1 summarizes the actual year-end spending and spending rate by City Program and Agency.

Projects to be closed

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. 141 capital projects were completed in the last quarter of 2018 that have a combined budget of \$303.9million. They have been completed under budget realizing an underspending of \$27.7 million. Throughout 2018, a total of 184 projects were completed of which 167 were Tax Supported and 17 were Rate Supported.

Table 4 below outlines the projects that have been completed in the four quarters of 2018:

Table 4: 2018 Closed Projects

Tax Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2018
# of Closed Projects	34	0	9	124	167
Project Budget (\$M)	77.2	0.0	54.5	230.8	362.6
Actual Expenditure (\$M)	71.4	0.0	44.4	255.1	340.9
Underspending (\$M)	5.8	0.0	10.1	5.8	21.7
Underspent Debt Funding (\$M)	0.9	0.0	0.0	3.0	3.9
Rate Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2018
# of Closed Projects	0	0	0	17	17
Project Budget (\$M)	0.0	0.0	0.0	73.1	73.1
Actual Expenditure (\$M)	0.0	0.0	0.0	51.2	51.2
Underspending (\$M)	0.0	0.0	0.0	21.9	21.9
Underspent Debt Funding (\$M)	0.0	0.0	0.0	0.0	0.0
All City Programs/Agencies	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2018
# of Closed Projects	34	0	9	141	184
Project Budget (\$M)	77.2	0.0	54.5	303.9	435.7
Actual Expenditure (\$M)	71.4	0.0	44.4	276.2	392.0
Underspending (\$M)	5.8	0.0	10.1	27.7	43.6
Underspent Debt Funding (\$M)	0.9	0.0	0.0	3.0	3.9

In Q4 of 2018, the permanent underspending of \$27.7 has associated funding of \$0.5 million from Federal Subsidy, \$2.6 million in Capital from Current, \$3.9 million in debt, \$4.9 million in reserves/reserve funds, \$16.6 million in Recoverable Debt and \$0.1 million in Other Revenue will be returned to their original Council approved funding sources.

Table 5 below outlines the associated underspending by funding sources for Tax Supported and Rate Supported projects completed in 2018:

Table 5: 2018 fourth quarter underspending by funding sources

All City Programs/Agencies (\$M)	Tax	Rate	Total
Federal Subsidy		0.5	0.5
Capital from Current (Prior Year)	2.6		2.6
Debt	3.0		3.0
Reserve/ Reserve Funds	0.1	4.8	4.9
Recoverable Debt		16.6	16.6
Other Revenue	0.1		0.1
Total	5.8	21.9	27.7

Appendix 2 details 141 capital projects that have been completed in the fourth quarter of 2018 by various City Programs and Agencies which can now be closed.

DECISION HISTORY

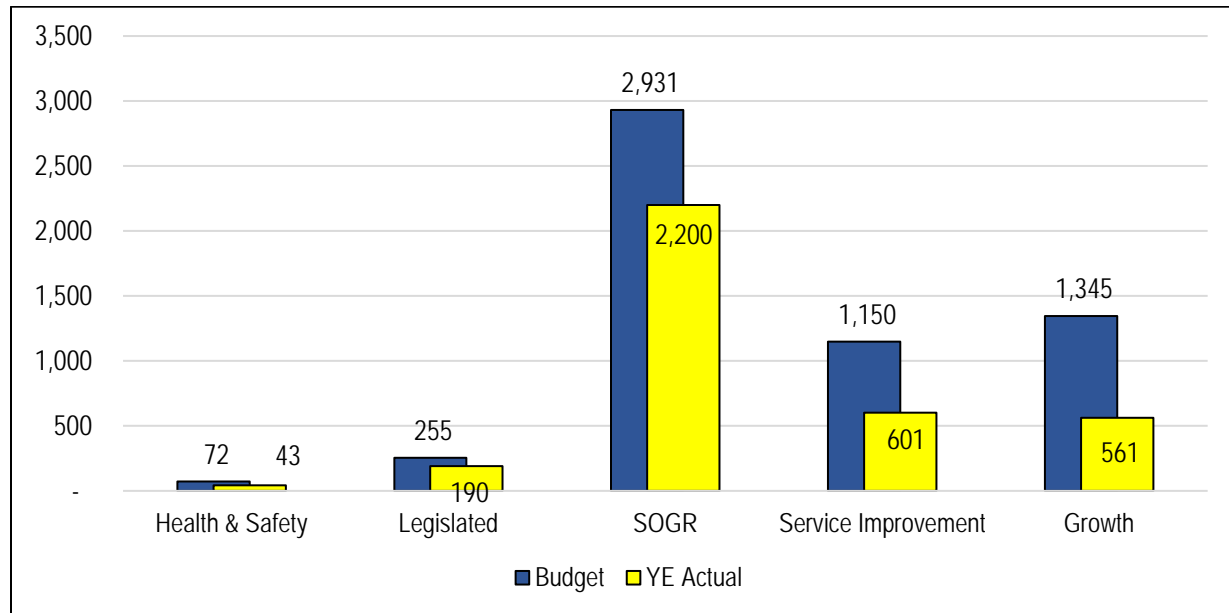
At its meeting of December 5-8, 2017, Council approved a 2018 Rate-Supported Capital Budget of \$1.015 billion and on February 12, 2018, Council approved a 2018 Tax Supported Capital Budget of \$2.995 billion. The 2018 Rate-Supported Capital Budget provides \$865.2 million for Toronto Water, \$57.2 million for Toronto Parking Authority and \$92.8 million for Solid Waste Management Services. Reflecting Carry Forward and in-year budget adjustments for all City Tax and Rate Programs and Agencies, the adjusted Capital Budget for 2018 is currently \$5.752 billion.

COMMENTS

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 (Rate and Tax) approved Budget and year-end actual expenditure for each project category.

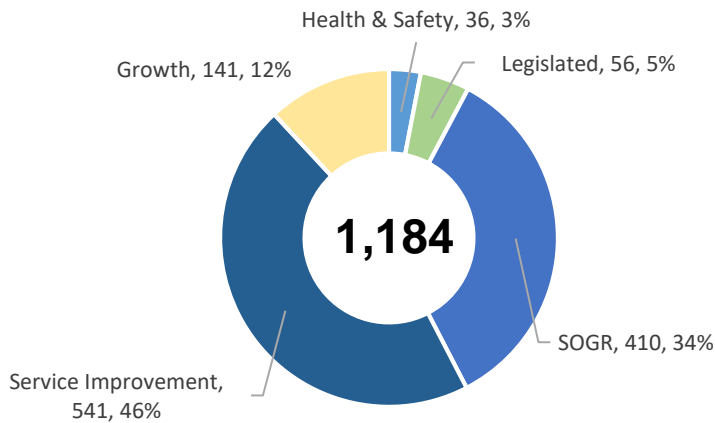
Figure 2: 2018 Approved Budget and Spending by Project Category (\$Millions)



Priority is given to projects that maintain existing assets in a state of good repair (SOGR) to ensure assets are reliable for service delivery. SOGR projects account for \$2.931 billion or 51.0% of the City's 2018 approved Capital Budget of which \$2.200 billion or 75.0% of the SOGR budget was spent. 2018 spending for Health & Safety (\$42.8 million) and Legislated projects (\$189.8 million) was 59.8% and 74.5% spent respectively. In addition, \$600.9 million for Service Improvement projects and \$561.2 million for Growth Related projects was also spent, representing the lowest spending rates of 52.3% and 41.7% compared to the other categories.

As illustrated in Figure 3 in the following page, the City had a total of 1,184 previously approved and new 2018 capital projects that remained open at the end of 2018.

Figure 3: 2018 Open Projects



Service Improvement projects account for the majority of open projects totalling 541 or 46% of the total projects while SOGR projects account for 410 or 35% of all SOGR 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.

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.

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 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.

Closing of completed capital projects in a timely manner identifies underspending 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 their attention on active projects, and support 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 6 below shows the number of projects that have been closed for the last 5 years and their associated approved budget, expenditure and underspending.

Table 6: Project Closure form 2013-2018

	2013	2014	2015	2016	2017	2018	2013-2017
# of Projects Closed:	233	368	351	102	413	184	1,467
Project Budgets (\$M)	1,557.0	652.3	330.8	512.7	919.2	435.7	4,467
Actual Expenditure (\$M)	1,374.0	580.8	296.2	425.6	836.3	392.0	3,936
Underspending (\$M)	183.0	71.5	35.4	87.0	82.9	43.6	476
<i>Underspent Debt Funding (\$M)</i>	103.0	24.7	12.3	29.2	35.9	3.9	213

In 2018, 184 projects with a total budget of \$435.7 million and an actual expenditure of \$392.0 million were completed. The permanent underspending of \$43.6 million has associated funding of \$0.5 million from Federal subsidy, \$2.6 million in Capital from Current, \$3.9 million in debt, \$19.8 million in reserves/reserve funds, \$16.6 million in Recoverable Debt and \$0.2 million in Other Revenue will be returned to their original Council approved funding sources.

The funding sources associated with the \$43.6 million in permanent underspending from those Tax Supported and Rate Supported projects are shown in Table 7:

Table 7: Total underspending by funding sources for 2018

Funding Sources (\$M)	Tax	Rate	Total
Federal Subsidy		0.5	0.5
CFC (Prior Year)	2.6		2.6
Debt	3.9		3.9
Reserve/ Reserve Funds	14.9	4.8	19.8
Recoverable Debt		16.6	16.6
Other Revenues	0.2		0.2
Total	21.7	21.9	43.6

In addition to the fully completed projects, 110 sub-projects of 25 Capital projects in have been completed. These projects with a total approved budget of \$382.2 million and a life-to-date expenditure of \$286.7 million will remain open to allow continuation of capital work for the remaining sub-projects. The residual funds of \$95.5 million will be used to complete the remaining phases or sub-projects of this project.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 Capital Variance Summary for the year ended December 31, 2018
Appendix 2 Capital Projects for Closure
Appendix 3 Major Capital Projects
Appendix 4 Capital Dashboard for Programs/Agencies