

Capital Variance Report for the Nine Months Ended September 30, 2019

Date: November 29, 2019
To: Budget Committee and 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 spending for the nine month period ended September 30, 2019, as well as projected expenditures to December 31, 2019. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2019 Approved Capital Budget that have no impact on 2019 approved debt.

As illustrated in Table 1 below, City's 2019 capital expenditure was \$2.237 billion or 39.3% of the 2019 capital budget of \$5.689 billion for the period ended September 30, 2019 and is projecting to expend \$3.945 billion or 69.3% by December 31, 2019.

Table 1: Capital Variance Summary

	2019 Approved Budget*	Actual Expenditures - January to September		Projected Expenditures - January to December	
	\$M	\$M	%	\$M	%
City Operations	1,968	679	34.5%	1,269	64.5%
Agencies	2,592	1,002	38.7%	1,699	65.6%
Subtotal - Tax Supported	4,560	1,682	36.9%	2,968	65.1%
Rate Supported	1,129	555	49.2%	977	86.5%
TOTAL	5,689	2,237	39.3%	3,945	69.3%

*Note: Includes 2018 carry forward funding and 2019 in-year adjustments

The Capital spending pattern for the first nine month typically ranges between 32% and 37% of the total Council Approved Capital Budget. Total City projected spend of 69.3% by year-end is comprised of a Tax Supported Programs spending rate of 65.1% and a Rate Supported Programs spending rate of 86.5%. 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 details the 6 completed capital projects that have a combined budget of \$8.3 million that are ready to be closed. They have been completed under budget, realizing underspending of \$1.6 million.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve in-year budget adjustments to the 2019-2028 Approved Capital Budget and Plan as detailed in Appendix 4 that result in no incremental impact on debt financing.

FINANCIAL IMPACT

The capital expenditures in the first nine months of 2019 total \$2.237 billion and year-end expenditures are anticipated to increase to \$3.945 billion or 69.3%% of the total 2019 Approved Capital budget. 14 of the 36 City Programs and Agencies have projected year-end spending rate in excess of 70%.

Appendix 1 summarizes the spending in the first nine months 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. 6 capital projects were reported to be completed at the end of Q3 2019 that have a combined budget of \$8.3 million. They have been completed under budget realizing a permanent underspending of \$1.6 million. The permanent underspending has associated funding of \$0.4 million in capital from current, \$0.3 million in debt, \$0.2 million in Development Charges and \$0.7 million in reserves/reserve funds.

DECISION HISTORY

At its meeting of March 7, 2019, Council approved 2019 Rate Supported Capital Budget of \$864 million and 2019 Tax Supported Capital Budget of \$2.985 billion, resulting in total approved Capital Budget of \$3.849 billion.

By the end of Q3, including the approved 2018 carry-forward funding and 2019 in-year adjustments, the 2019 Tax Supported Capital Budget was \$4.560 billion and 2019 Rate Supported Capital Budget was \$1.129 billion. As a result, the adjusted 2019 Capital Budget totalled \$5.689 billion.

COMMENTS

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the Nine Months Ended September 30, 2019 for major service areas.

Table 2: Capital Variance Summary

Table 2 Corporate Capital Variance Summary for the Period Ended September 30, 2019					
	2019 Approved Budget	2019 Actual January to September		2019 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
Tax Supported Programs:					
Community and Social Services	659	189	28.7%	362	54.9%
Infrastructure and Development Services	739	350	47.4%	609	82.5%
Corporate Services	456	128	28.0%	270	59.2%
Finance and Treasury Services	24	7	29.0%	9	37.9%
Corporate Initiatives	84	4	4.3%	15	17.7%
Other City Programs	6	2	37.8%	4	66.6%
Sub Total City Operations	1,968	679	34.5%	1,269	64.5%
TTC	1,655	819	49.5%	1,368	82.7%
Transit Expansion (TTC)	691	112	16.2%	149	21.6%
Other Agencies	246	71	28.8%	182	74.1%
Sub Total - Tax Supported	4,560	1,682	36.9%	2,968	65.1%
Rate Supported Programs:					
Solid Waste Management	93	26	27.7%	53	57.2%
Toronto Parking Authority	84	12	14.8%	36	42.9%
Toronto Water	952	517	54.3%	887	93.2%
Sub Total Rate Supported	1,129	555	49.2%	977	86.5%
Total	5,689	2,237	39.3%	3,945	69.3%

City Programs and Agencies project year-end capital expenditures of \$3.945 billion or 69.3% of the 2019 Approved budget. The projected spending rate in 2019 is driven broadly by major capital spending programs and agencies such as Toronto Transit Commission (TTC), Toronto Water and Transportation Services:

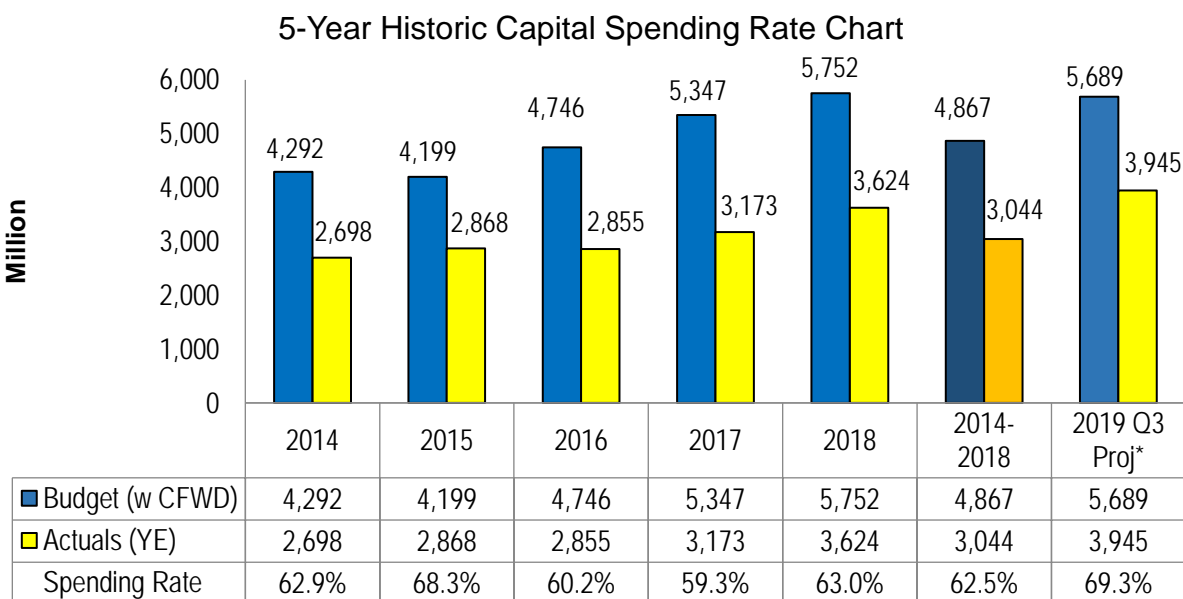
TTC (Base Programs) is projecting to spend \$1.368 billion or 82.7% of its 2019 Approved Capital Budget. The largest expenditures are expected to be on the *Purchase of buses* (\$309.3 million) and *Purchase of Streetcars* (\$287.9 million).

Toronto Water is projecting to spend \$887.0 million or 93.2% of its 2019 Approved Capital Budget. The largest expenditures are expected to be on *Dist Watermain replacement project* (\$101.4 million) *Don & Waterfront Trunk/CSO project* (\$88.9 million), *Ashbridges Bay WWTP - Effluent System Project* (\$79.2 Million) and the *Basement Flooding Relief project* (\$77.2 Million).

Transportation Services is on track with most of its major projects including some of its biggest projects: the *F.G. Gardiner project* (\$85.8 million), *Local and Major Road Rehabilitation projects* (\$148.5 million) and *City Bridge Rehabilitation projects* (\$56.0 million). As a result Transportation Services is projected to spend \$461.3 million or 81.8% of its approved 2019 Capital Budget.

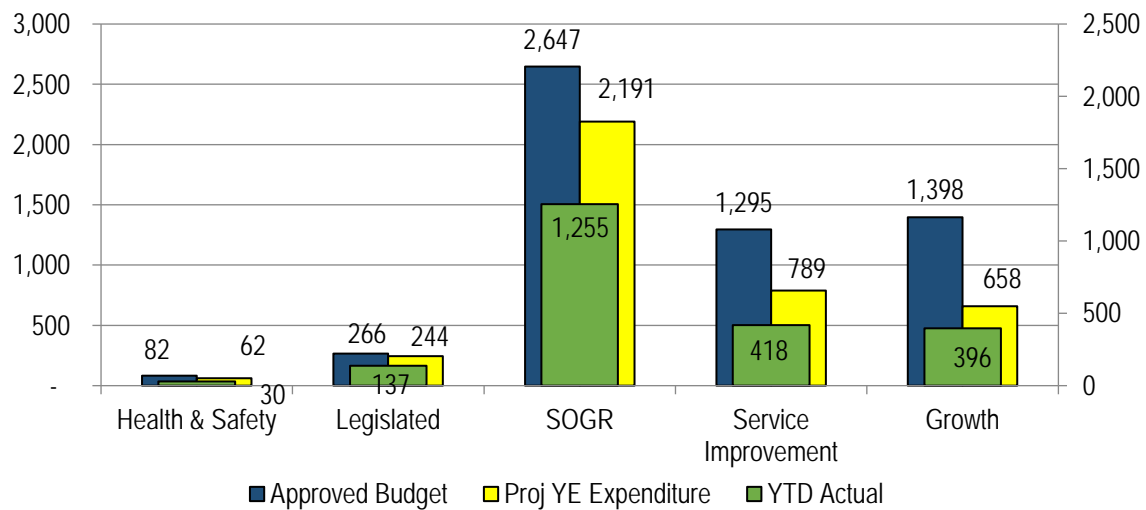
Figure 1 below compares the actual year-end spending rate in each of the years 2014 to 2018, showing the 5 year average from 2014 to 2018, and the projected 2019 year-end spending rate detailed in this report. Spending rate is the actual capital spending amount as a percentage of the full year budget including in-year adjustments and carry forward from prior years' unspent budget.

Figure 1: 2014 - 2018 and 2019 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 in the following page compares the 2019 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2019 Approved Budget and Spending by Project Category (\$Millions)



Legislated and State of Good Repair (SOGR) projects have the two highest projected spending rate of 91.7% and 82.8% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.191 billion which is in line with the City's continued emphasis on SOGR investment. Health & Safety has the next highest projected spending rate of 75.8%. It is also anticipated that about 60.9% of the approved Capital Budget for Service Improvement and 47.1% of Growth related projects will be spent by year-end. 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.

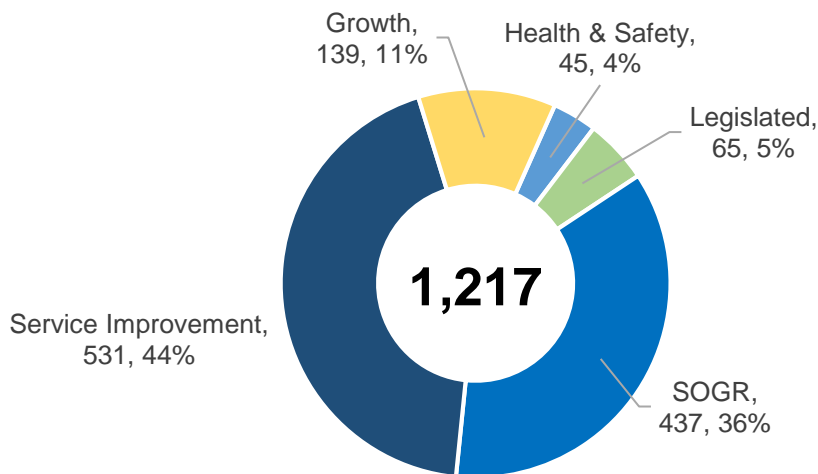
Table 5 below outlines 2019 City's capital expenditure and spending rate by project category.

Table 5: City Budget and Projected Spending by Project Category

(\$Million)	Approved Budget	YTD Actual	Proj YE Expenditure	Projected YE Rate
Health & Safety	82	30	62	75.8%
Legislated	266	137	244	91.7%
SOGR	2,647	1,255	2,191	82.8%
Service Improvement	1,295	418	789	60.9%
Growth	1,398	396	658	47.1%
Total	5,689	2,237	3,945	69.3%

As illustrated in Figure 4 below, the City has a total of 1,217 open capital projects at the end of Q3 of 2019.

Figure 3: 2019 Open Projects



Service Improvement projects account for the majority of open projects totalling 531 or 44% of the total City's capital projects. SOGR projects account for 437 or 36% of all capital projects.

A detailed explanation on the progress of major capital projects can be found in Appendix 3 of this report. Further details 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 the first nine months of 2019

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 6 capital projects from the Tax Supported Programs that have been completed in the third quarter of 2019 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$8.3 million and actual expenditures of \$6.7 million. This results in permanent underspending of \$1.6 million.

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 for future use consistent with funding eligibility.
- 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 for future use.
- Debt is applied only lastly and for the purposes for which the debt was issued. The unspent debt portion will generally not be issued.

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

Adjustment is recommended to increase the Economic Development and Culture (EDC) 2019 Council Approved Capital Budget which will result in an overall increase in project cost and 2019 cash flow funding of \$0.550 million, fully funded from the Public Arts Reserve, resulting in zero debt impact.

- The current Toronto Sign has shown significant non-reparable wear and tear since its installation in 2015 as a temporary structure. Replacement of the *Toronto Sign* requires a project cost and cash flow funding of \$0.550 million in 2019. This project is entirely funded from Public Arts Reserve and will provide a more durable *Toronto Sign* with improved functionality.

Parks, Forestry and Recreation

Adjustments are recommended to the Parks, Forestry and Recreation 2019-2028 Capital Budget and Plan totalling \$2.044 million with cash flow commitments of \$0.312 million in 2019 and \$1.732 million in future years, which includes:

- Acceleration of \$1.921 million in cash flow funding from 2020 to 2019, composed of \$1.561 million in previously approved development charge funding to fund PFR's component of the Bessarion Community Centre construction costs in 2019, and \$0.360 million in debt funding to award tenders for construction that exceed the available budget for the *CAMP Outdoor Recreation Centres* subproject in 2019. Deferral, as an offset, of \$1.921 million in cash flow funding from 2019 to 2020, including \$1.561 million for the *Bessarion Community Centre project* to align the timing of the cost-sharing with other stakeholders and \$0.360 million in debt funding due to delays associated with the *Tommy Thompson Park Improvements project*.
- Additional funds of \$2.044 million with cash flow commitments of \$0.312 million in 2019 and \$1.732 million in future years, mainly attributable to \$1.500 million cash flowed in 2021 to award a tender that exceeds the Council Approved Budget for the

Park Development / Grand Avenue (Mystic Point) project, fully funded by Section 37 and Section 45 community benefits.

- Other addition of funds include \$0.166 million in reserve funds cash flowed in 2020 to award a tender for the *McCowan District Park Phase 2 Construction project* which includes a splash pad and other park improvements, and \$0.166 million with cash flow of \$0.100 million in 2019 and \$0.066 million in 2020 funded by a developer contribution which will reimburse costs incurred by the City for a site not delivered in the appropriate condition as required. Adjustments of \$0.212 million with cash flow in 2019 are also recommended, as they are required for capital repairs for the Lakeshore Arena Corporation, fully funded by the Lakeshore Arena Capital Reserve Fund. Repair work will be undertaken and completed by the Lakeshore Arena Corporation. They have been consulted and acknowledge the capacity to spend the full funding amount in the budgeted year.

Fleet Services

An adjustments is recommended to the Fleet Services 2019-2028 Capital Budget and Plan totalling \$11.084 million which includes:

Acceleration of \$11.084 million in reserve funding from 2020 to 2019 to accommodate the delivery of vehicle and equipment replacements being received earlier than scheduled for Transportation Services, PF&R and E&CS. Consequently, deferral of \$11.084 million in reserve funding from 2019 to 2020 is required to better match the timing of replacements for the Fire Services and Solid Waste vehicle & equipment replacement capital projects due to a revised scheduling, resulting in a delayed lead time for the fire apparatuses and street sweepers.

Information & Technology

Adjustments are recommended to the Information & Technology (I&T) 2019 Capital Budget for the following:

- To reallocate project cost and 2019 cash flow totalling \$0.974 million from the *Asset Management Solution – Transportation* project which no longer requires the funds as a result of undergoing strategic realignment within the program, and from the *Work Management Solution* project which no longer requires the funds based on a scope review, to the *SAP Solution Manager version upgrade (SOGR)* project to enable the procurement of SAP HANA Enterprise Edition.
- To reallocate project cost and 2019 cash flow totalling \$0.250 million from the *Enterprise Business Intelligence Implementation* project which is being held for strategic re-alignment and scope review to the *Domino Decommission* project to complete work in 2019 including addressing AODA requirements and an additional resource to document requirements to complete security testing.

Toronto Public Library

Adjustments are recommended to the Toronto Public Library 2019 Capital Budget which will not result in overall changes to the cash flow funding and debt:

- *St. Clair/Silverthorn Reconstruction project* has been completed, and spending is over budget due to unexpected costs near the end of the project primarily related to water connection issues and corresponding delay claims from contractors. Debt and Development Charges funding of \$0.700 million will be transferred from projects that are under budget: *Fort York New Construction, Perth/Dupont Relocation and Multi-Branch projects.*

Toronto Transit Commission

Adjustments are recommended to the Toronto Transit Commission's 2019-2028 Capital Budget and Plan with no impact on the total approved projects costs and debt over the 10-year period. Deferrals have been identified from timing, scheduling and realignment of cash flow for various projects resulting in cash flow available for the reallocation in 2019 to support other projects that are progressing quickly and are accelerated.

Solid Waste Management Services

SWMS Infrastructure and Resource Management is seeking to amend the 2019 Approved Capital Budget and 2020-2028 Capital Plan to better align the cash flow with capital delivery and project requirements for four projects.

- Solid Waste Management Services, Policy Planning Finance & Administration and Corporate Financial Planning implemented a revised capital account structure for Perpetual Care of Closed Landfills Capital projects and Transfer Station Asset Management Capital projects in the first quarter of 2019. Capital projects which have been awarded in 2019 require cash flow alignment through adjustment of available funds within the new account structure to ensure compliance with Bid Award Panel report award recommendations and to ensure sufficient funding for purchase order commitments. The adjustments will have a zero dollar impact on the 2019 Capital Budget and 2020-2028 Capital Plan and will align the budget and plan with Infrastructure and Resource Management's capital project delivery schedule and project requirements.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2019 Capital Variance and Projection Summary for the Nine Months Ended September 30, 2019
Appendix 2 Capital Projects for Closure
Appendix 3 Major Capital Projects
Appendix 4 In-Year Adjustments for the Nine Months Ended September 30, 2019
Appendix 5 Capital Variance Dashboard by Program and Agency