

Capital Variance Report for the Nine Months Ended September 30, 2020

Date: November 10, 2020
To: Budget 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, 2020, as well as projected expenditures to December 31, 2020. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2020 Approved Capital Budget and Plan that have no impact on 2020 approved debt.

As illustrated in Table 1 below, City's 2020 capital expenditure was \$2.261 billion or 47.6% of the 2020 capital budget of \$4.749 billion for the period ended September 30, 2020 and is projecting to expend \$3.832 billion or 80.7% by December 31, 2020.

Table 1: Capital Variance Summary

	2020 Approved Budget*	Actual Expenditures - January to September		Projected Expenditures - January to December	
	\$M	\$M	%	\$M	%
City Operations	2,027	862	42.5%	1,509	74.4%
Agencies	1,354	705	52.1%	1,177	87.0%
Tax Supported	3,381	1,567	46.3%	2,686	79.4%
Rate Supported Programs:	1,368	694	50.8%	1,146	83.8%
TOTAL	4,749	2,261	47.6%	3,832	80.7%

*Note: Includes 2019 carry forward funding and 2020 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, with the 2020 experience of 47.6% comparing favourably to past experience. Total City projected spend of 80.7% by year-end is comprised of a Tax Supported Programs spending rate of 79.4% and a Rate Supported Programs spending rate of 83.8%.

Projected underspending by year-end totals \$917.2 million or 19.3% of the 2020 Capital Budget. Part of the reason is due to COVID-19 continues to have an impact on the 2020 capital budget spending.

- At the onset of COVID-19, due to the uncertainty of the financial impact and the amount of financial assistance from other levels of government, capital projects funded by Capital from Current (CFC) were slowed to enable potential offsets to COVID-19 financial impacts.
 - Given the continued uncertainty regarding the allocation that Toronto will receive of future phase Safe Restart Agreement funding, CFC funded capital projects will continued to be slowed to the end of the year. Impacted capital projects will be reassessed as part of the 2021 budget process.

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.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve in-year budget adjustments to the 2020-2029 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 2020 total \$2.261 billion and year-end expenditures are anticipated to increase to \$3.832 billion or 80.7% of the total 2020 Approved Capital budget. 15 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.

DECISION HISTORY

City Council approved the 2020 Rate-Supported Capital Budget of \$1.368 billion and the 2020 Tax Supported Capital Budget of \$3.381 billion, with totals reflecting

adjustments and amendments to the Capital Plans approved during the City Council meeting of September 30, 2020.

COMMENTS

Table 2 in the following page outlines capital spending for Tax and Rate Supported Programs for the Nine Months Ended September 30, 2020 for major service areas.

Table 2: Capital Variance Summary

Table 2					
Corporate Capital Variance Summary					
for the Period Ended September 30, 2020					
	2020 Approved Budget	2020 Actual January to September		2020 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
Tax Supported Programs:					
Community and Social Services	690	287	41.6%	533	77.3%
Infrastructure and Development Services	793	340	42.9%	606	76.4%
Corporate Services	490	228	46.5%	352	71.7%
Finance and Treasury Services	14	5	34.8%	7	52.8%
Corporate Initiatives	36	0	1.1%	8	22.4%
Other City Programs	4	2	41.6%	3	76.9%
Sub Total City Operations	2,027	862	42.5%	1,509	74.4%
TTC	1,016	569	56.0%	954	93.9%
Transit Expansion (TTC)	77	44	56.9%	76	99.6%
Other Agencies	261	92	35.3%	147	56.3%
Sub Total - Tax Supported	3,381	1,567	46.3%	2,686	79.4%
Rate Supported Programs:					
Solid Waste Management	105	27	25.5%	51	48.9%
Toronto Parking Authority	77	19	25.0%	39	50.6%
Toronto Water	1,187	649	54.6%	1,056	89.0%
Sub Total Rate Supported	1,368	694	50.8%	1,146	83.8%
Total	4,749	2,261	47.6%	3,832	80.7%

City Programs and Agencies project year-end capital expenditures of \$3.832 billion or 80.7% of the 2020 Approved budget. The projected spending rate in 2020 is driven broadly by major capital spending Programs and Agencies such as TTC, Toronto Water and Transportation Services:

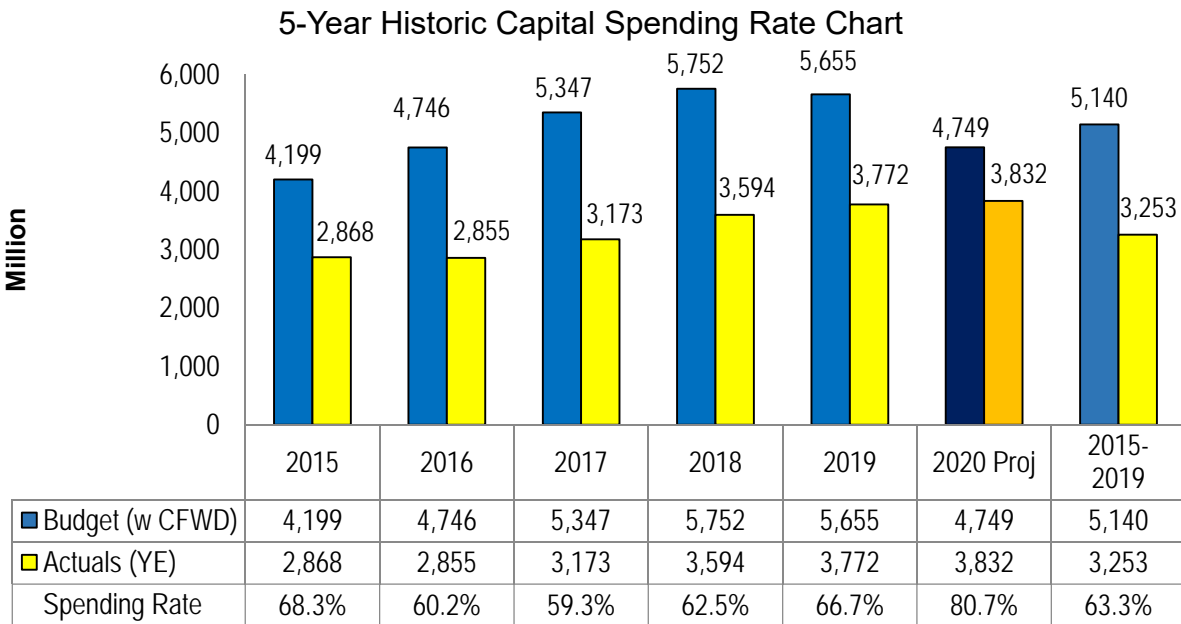
- TTC (Base Programs) is projecting to spend \$953.8 million or 93.9% of its 2020 Approved Capital Budget. The largest expenditures are expected to be on the *Other Buildings & Structures Projects (\$100.1 million)*, *Easier Access - Phase III (\$73.4 million)*, *Purchase of Buses (\$69.6 million)* and *Purchase of Streetcars (\$69.1 million)*.
- Toronto Water is projecting to spend \$1.056 billion or 89% of its 2020 Approved Capital Budget. The largest expenditures are expected to be on *the Basement*

Flooding Relief project (\$103.6 Million), Dist Watermain replacement project (\$89.6 million), Don & Waterfront Trunk/CSO project (\$81.1 million) and Ashbridges Bay WWTP - Effluent System Project (\$81.0 Million).

- Transportation Services is on track with most of its major projects including some of its biggest projects: the *F.G. Gardiner project (\$152.3 million)*, Local and Major Road Rehabilitation projects (*\$138.4 million*) and *City Bridge Rehabilitation Critical projects (\$38.5 million)*. As a result Transportation Services is projected to spend \$507.9 million or 89.9% of its approved 2020 Capital Budget.

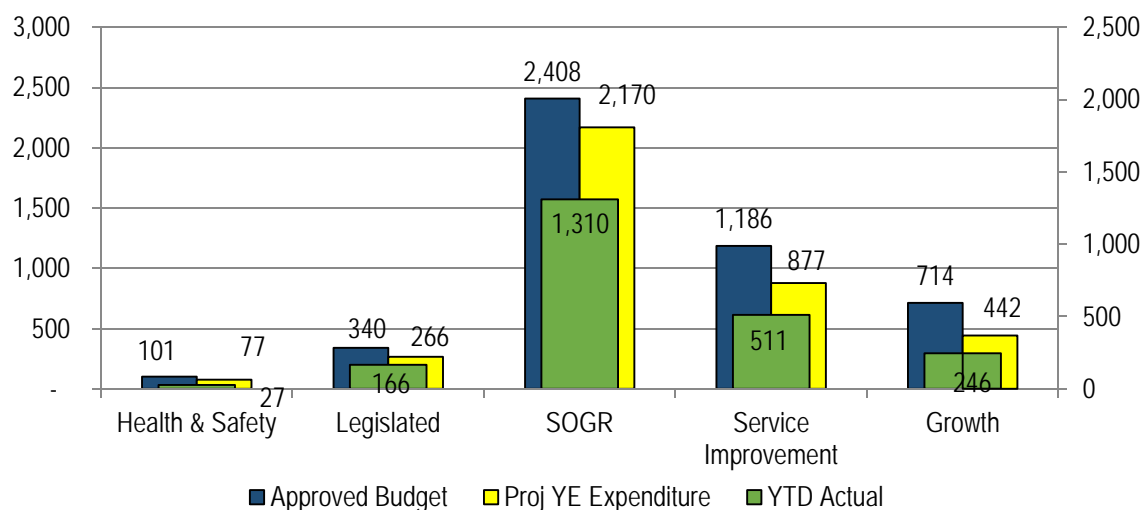
Figure 1 below compares the actual year-end spending rate in each of the years 2015 to 2019, showing the 5 year average from 2015 to 2019, and the projected 2020 year-end spending rate is detailed in this report. Spending rate is the actual capital spending amount as a percentage of the full year budget including in-year adjustments and carry forward from prior years' unspent budget.

Figure 1: 2015 - 2019 Spending and 2020 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 2020 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2020 Approved Budget and Spending by Project Category (\$Millions)



Legislated and State of Good Repair (SOGR) projects have the two highest projected spending rate of 78.4% and 90.1% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.17 billion which is in line with the City's continued emphasis on SOGR investment. Health & Safety has the next highest projected spending rate of 75.6%. It is also anticipated that about 74.0% of the approved Capital Budget for Service Improvement and 61.9% 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.

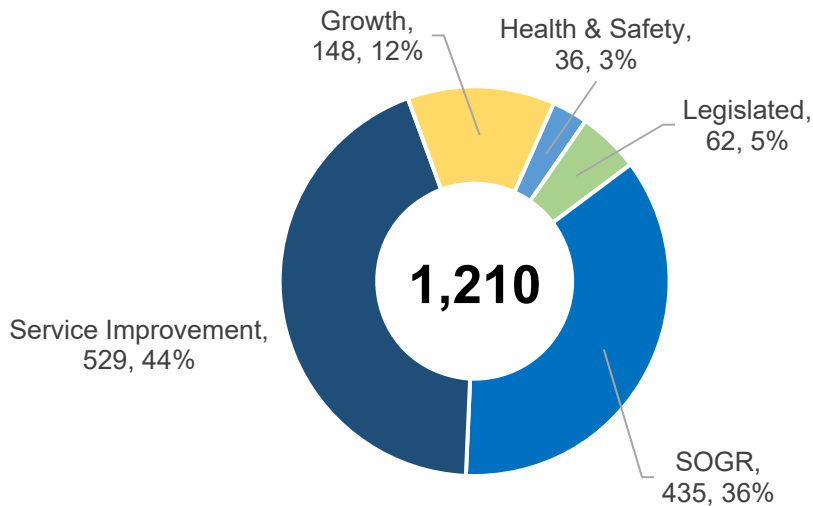
Table 3 below outlines 2020 City's capital expenditure and spending rate by project category.

Table 3: City Budget and Projected Spending by Project Category

(\$Million)	Approved Budget	YTD Actual	Proj YE Expenditure	Projected YE Rate
Health & Safety	101	27	77	75.6%
Legislated	340	166	266	78.4%
SOGR	2,408	1,310	2,170	90.1%
Service Improvement	1,186	511	877	74.0%
Growth	714	246	442	61.9%
Total	4,749	2,261	3,832	80.7%

As illustrated in Figure 3 below, the City has a total of 1,210 open capital projects at the end of 9 months of 2020.

Figure 3: 2020 Open Projects



Service Improvement projects account for the majority of open projects totalling 529 or 44% of the total City's capital projects. SOGR projects account for 435 or 36% of all capital projects.

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.

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 the Economic Development and Culture's (EDC) 2020 Capital Budget which will result in an overall increase in cash flow funding of \$1.450 million:

The 2019 BIA Equal Share Funding project is proceeding ahead of schedule. Acceleration of cash flow commitments of \$1.900 million gross, funded by \$0.950 million debt and \$0.950 million BIA recoveries, from 2021 to 2020 will allow EDC to process invoice payments for construction completed in 2020. Overall, the project cost remains within approved budgeted. Due to COVID-19, the Commercial Façade Improvement Program projects are delayed. Total cash flow funding of \$0.450 million, funded by CFC, will be deferred from 2020 to 2021.

Environment & Energy

Deferral of recoverable debt funded capital for the Environment & Energy is being recommended from 2020 to 2021 as follows:

- Deferral of \$14.000 million for TCHC to use approved funds to address renewables since procurement of the CHP generators came in under budget
- Deferral of \$3.800 million on the Renewable Thermal Energy Program to reflect delays on contracts and PO issuance affecting the design stage being impacted by COVID-19

Corporate Real Estate Management

Corporate Real Estate Management (CREM) is seeking to amend the 2020 Council Approved Capital Budget and its respective 10-year plan to better align cash flow with capital delivery and project requirements for various projects. The budget adjustment reflects acceleration and deferral of debt and non-debt funding based on timing and scheduling needs of projects, with no impact to respective project costs.

An in-year adjustment is included to recommend change of the funding source for the Strategic Property Acquisition approved in EX9.6 Property Acquisition for Strategic City Building from \$40.000 million in Recoverable Debt to \$10.000 million from the South District Parkland Acquisition Reserve Fund (XR2208) and \$30.000 million from various Section 42 Alternate Rate Above 5% Cash-in-lieu (XR2213). This adjustment is required to reflect Parks, Forestry and Recreation's contribution to CREM's Strategic Property Acquisition project cost.

Parks, Forestry and Recreation

An adjustment is recommended to the 2020 Capital Budget and Plan for Parks, Forestry and Recreation for Bessarion Community Centre – Stakeholder Funding project to replace the funding source in a total amount of \$3.875 million from Other Contributions from Children's Services with \$1.875 million in 2020, funded by Section 37 from 1181 Sheppard Avenue East (XR3026-3701010); and \$1.100 million in 2020 and \$0.600 million in 2021 from the Child Care Capital Reserve Fund (XR1103).

Technology Services Division

Adjustments are recommended to the Technology Services Division's 2020 Capital Budget for the following:

- To increase project costs and 2020 cash flow of "TSD COVID 19 Capital Impact" by \$9.000 million funded from the Capital Financing Reserve XQ0011 for the increased costs incurred to support remote work
- To reallocate project cost totalling \$0.728 million from the "Applications System" program (CIT045) to the "Enterprise Collaboration Foundation" project (CIT045-24-01) as a technical correction to project cost with no financial impact to 2020 cash flows

- All other adjustments are to align cash flow with capital delivery and project requirements for various projects. The budget adjustment reflects acceleration and deferral and reallocation of debt funding based on timing and scheduling needs of projects with net zero debt impact

Toronto Public Library

Adjustments are recommended to the Toronto Public Library's 2020 Council Approved Capital Budget because a number of multi-year renovation and construction projects are proceeding ahead of schedule due to strong contractor performance as well as branch closure allowing for more flexibilities to schedule capital work, even with the COVID restrictions. The acceleration of future year cash flow commitments to 2020, totalling \$5.778 million gross, fully funded by debt, is required in order to align cash flow funding requirements with updated project schedules for the following projects:

- Albert Campbell Library Renovation – Construction (\$1.197M Gross and Debt)
- North York Central Library Phase 2 (\$2.395M Gross and Debt)
- York Woods Library Renovation (\$2.186M Gross and Debt)

The recommended in-year budget adjustments do not change the total project costs, the scope of the projects, or approved debt requirements, resulting in zero incremental debt impact to the 2020-2029 Council Approved Capital Budget and Plan for Toronto Public Library.

Fleet Services

Acceleration and deferral of client reserve funded capital in the 2020 Approved Capital Budget and 2019-2028 Capital Plan for Fleet Services in the amount of \$4.050 million is being recommended to align funding to capital delivery. This amendment will have zero gross and net debt impact and includes:

- Acceleration of \$3.500 million for Solid Waste Management vehicle and equipment replacements;
- Acceleration of \$0.450 million for Toronto Water vehicle and equipment replacements;
- Acceleration of \$0.100 million for Municipal Licensing and Standards vehicle and equipment replacements; and
- Deferral of \$4.050 million for Toronto Fire, as the majority of vehicle delivery and equipment acquisitions will take place in 2021

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2020 Capital Variance and Projection Summary for the Nine Months Ended September 30, 2020

Appendix 2 Major Capital Projects

Appendix 3 In-Year Adjustments for the Nine Months Ended September 30, 2020

Appendix 4 Capital Variance Dashboard by Program and Agency