

Capital Variance Report for the Twelve Months Ended December 31, 2019

Date: November 10, 2020
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 year ended December 30, 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.

Actual capital expenditures for 2019 totalled \$3.772 billion or 66.7% of 2019 approved Capital Budget of \$5.655 billion. Tax Supported Programs and Agencies reported capital expenditures of \$2.780 billion representing 61.4% of their collective 2019 approved Capital Budget of \$4.526 billion. Rate Supported Programs reported capital expenditures of \$991.8 million, representing 87.8% of their collective 2019 approved Capital Budget of \$1.129 billion.

Table 1: Capital Variance Summary

	2019 Approved Budget	2019 Actual Expenditure	
	(\$M)	(\$M)	%
City Operations	1,981	1,285	64.9%
Agencies	2,545	1,495	58.8%
Subtotal - Tax Supported	4,526	2,780	61.4%
Rate Supported	1,129	992	87.8%
TOTAL	5,655	3,772	66.7%

**2019 Approved Budget includes \$1.909 billion 2018 Carry Forward Funding*

The report also details the 233 completed capital projects that have a combined budget of \$269.5 million that are ready to be closed. They have been completed under budget, realizing underspending of \$17.8 million. The permanent underspending which has associated funding of \$0.5 million in Federal Subsidy, \$1.5 million in Capital from Current, \$6.0 million in debt, \$9.5 million in reserves/reserve funds and \$0.3 million in Recoverable Debt will be returned to their original Council approved funding sources.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Council receive this report and attached Appendices for information
2. City Council approve in-year budget adjustments to the 2019-2028 Approved Capital Budget and Plan as detailed in Appendix 5 that result in no incremental impact on debt financing.

FINANCIAL IMPACT

Total capital expenditure in 2019 totalled \$3.772 billion or 66.7%% of the total 2019 Approved Capital budget of \$5.655 billion. 11 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. 233 completed capital projects that have a combined budget of \$269.5 million that are ready to be closed. They have been completed under budget, realizing underspending of \$17.8 million. The permanent underspending has associated funding of \$0.5 million in Federal Subsidy, \$1.5 million in Capital from Current, \$6.0 million in debt, \$9.5 million in reserves/reserve funds and \$0.3 million in Recoverable Debt.

DECISION HISTORY

At its meeting of March 7, 2019, Council approved 2019 Rate Supported Capital Budget of \$864.0 million and 2019 Tax Supported Capital Budget of \$2.985 billion, resulting in total approved Capital Budget of \$3.849 billion.

By year-end, including the approved 2018 carry-forward funding and 2019 in-year adjustments, the 2019 Tax Supported Capital Budget was \$4.526 billion and 2019 Rate Supported Capital Budget was \$1.129 billion. As a result, the adjusted 2019 Capital Budget totalled \$5.655 billion.

COMMENTS

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the twelve months ended December 31, 2019 for major service areas.

Table 2: Capital Variance Summary

Table 2 Corporate Capital Variance Summary for the Period Ended December 31, 2019			
	2019 Approved Budget	2019 Actual Expenditure	
	\$M	\$M	%
Tax Supported Programs:			
Community and Social Services	660	351	53.2%
Infrastructure and Development Services	746	616	82.5%
Corporate Services	466	283	60.7%
Finance and Treasury Services	24	10	40.6%
Corporate Initiatives	79	22	27.8%
Other City Programs	6	4	64.5%
Sub Total City Operations	1,981	1,285	64.9%
TTC	1,655	1,210	73.1%
Transit Expansion (TTC)	644	177	27.5%
Other Agencies	246	108	44.1%
Sub Total - Tax Supported	4,526	2,780	61.4%
Rate Supported Programs:			
Solid Waste Management	94	50	53.0%
Toronto Parking Authority	84	20	23.4%
Toronto Water	952	922	96.9%
Sub Total Rate Supported	1,129	992	87.8%
Total	5,655	3,772	66.7%

City Programs and Agencies year-end capital expenditures of \$3.772 billion or 66.7% of the 2019 Approved budget. The 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) spent \$1.201 billion or 73.1% of its 2019 Approved Capital Budget. The largest expenditures are expected to be on the *Purchase of buses* (\$227.2 million) and *Purchase of Streetcars* (\$235.8 million).

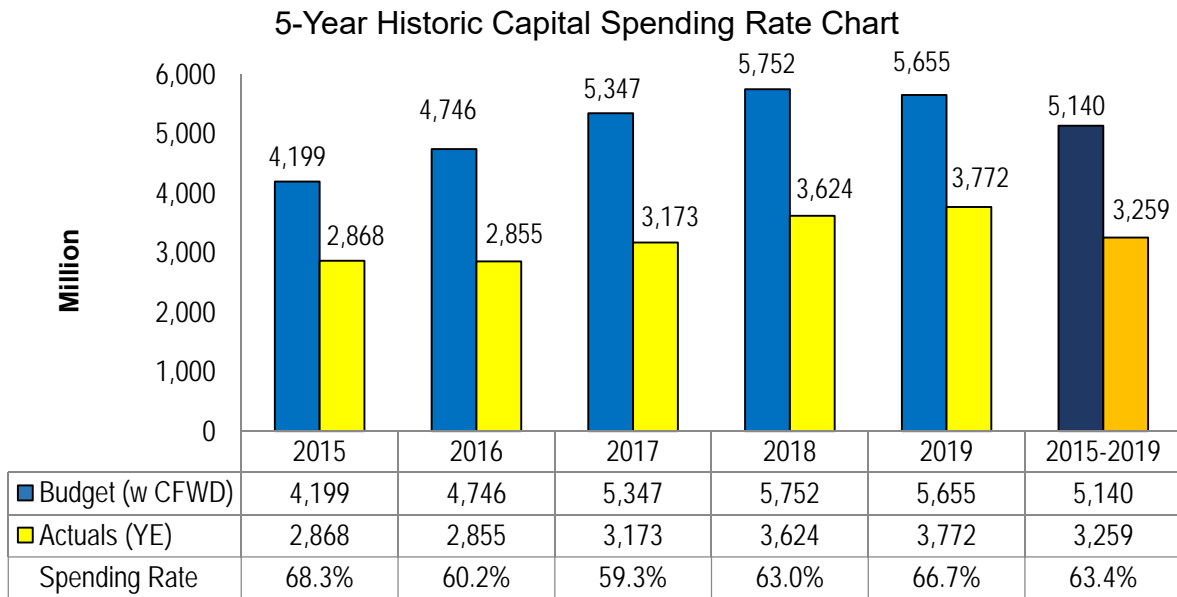
Toronto Water spent \$923.3 million or 96.9% of its 2019 Approved Capital Budget. The largest expenditures are expected to be on *Dist Watermain replacement project* (\$117.9 million) *Don & Waterfront Trunk/CSO project* (\$86.6 million), *Ashbridges Bay WWTP - Effluent System Project* (\$80.0 Million) and the *Basement Flooding Relief project* (\$78.8 Million).

Transportation Services is on track with most of its major projects including some of its biggest projects: the *F.G. Gardiner project* (\$114.3 million), *Local and Major Road*

Rehabilitation projects (\$149.3 million) and City Bridge Rehabilitation projects (\$56.5 million). As a result Transportation Services spent \$480.4 million or 84.1% of its approved 2019 Capital Budget.

Figure 1 below shows the actual year-end spending rate in each of the years 2015 to 2019 and the 5 year average from 2015 to 2019. 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.

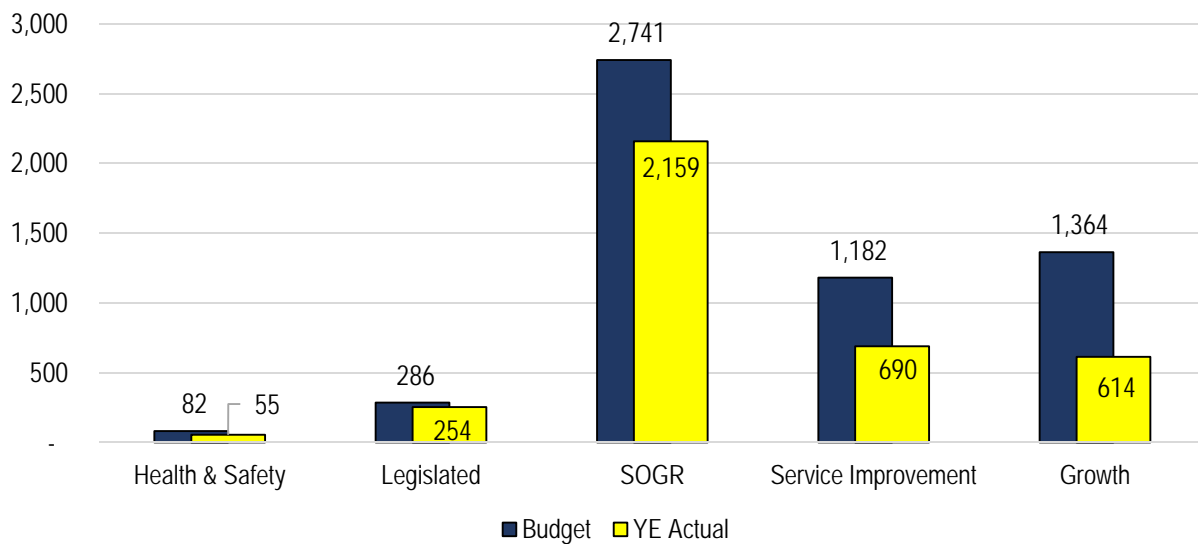
Figure 1: 2015 - 2019 Capital Spending Rate



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 \$2.868 billion in 2015 to \$3.772 billion in 2019 and the spending rate for 2019 is slightly higher compared to the last 5 year's average.

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 spending rate of 88.8% and 78.8% respectively. State of Good Repair (SOGR) accounted for the highest spending at \$2.159 billion which is in line with the City's continued emphasis on SOGR investment. Health & Safety has the next highest spending rate of 67.5%.

Service Improvement and Growth related projects have lower spending rate of 58.4% and 45.0% respectively which is common for these categories of projects as they tend to be more complex, include various stakeholders and have more dependencies on other factors.

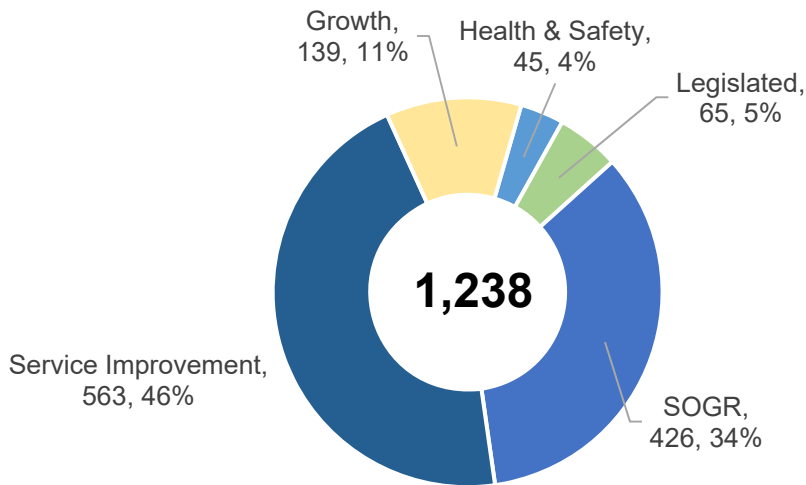
Table 3 below outlines 2019 City's capital expenditure and spending rate by project category.

Table 3: City Budget and Projected Spending by Project Category

(\$Millions)	Approved Budget	Actual YE Expenditure	Projected YE Rate
Health & Safety	82	55.4	67.5%
Legislated	286	253.9	88.8%
SOGR	2,741	2,159	78.8%
Service Improvement	1,182	690.0	58.4%
Growth	1,364	614.1	45.0%
Total	5,655	3,772	66.7%

As illustrated in Figure 3 below, the City has a total of 1,238 open capital projects at the end of 2019

Figure 3: 2019 Open Projects



Service Improvement projects account for the majority of open projects totalling 563 or 45.5% of the total City's capital projects. SOGR projects account for 426 or 34.4% 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 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 233 capital projects that have been completed in 2019 and can now be closed following the year-end close. Together these capital projects have a combined budget of \$269.5 million and actual expenditures of \$251.7 million. This results in permanent underspending of \$17.8 million.

In 2019, a total of 329 capital projects have been completed. 324 from Tax Supported programs and 5 from Rate Supported programs. These capital projects have a combined budget of \$454.0 million and actual expenditures of \$421.7 million. This results in total permanent underspending of \$32.3 million. The permanent underspending has associated funding of \$0.5 million in Federal Subsidy, \$6.2 million in Capital from Current, \$7.6 million in debt, \$0.7 million in Development Charges funding, \$15.5 million in reserves/reserve funds and \$0.6 million in Recoverable Debt and \$1.3 million in other revenue.

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:

Transportation Services

An adjustment is recommended to the Transportation Services 2019 Council Approved Capital Budget to accelerate \$7.406 million of future year committed cash flows for the Rehabilitation of the F. G. Gardiner project. The acceleration will provide sufficient funding for 2019 expenditures related to Contract 1 - Rehabilitation of the Expressway from Jarvis to Cherry, as work is proceeding ahead of schedule and anticipated to be completed by 2021.

Toronto Transit Commission

Toronto Transit Commission is seeking to amend the 2019 Approved Capital Budget and the 2020-2028 Capital Plan to better align the cash flow with capital delivery and project requirements for various projects as well correcting duplicating entries that were processed during the year. The budget adjustments are a result of savings from the advancement of construction contracts and opportunities taken to accelerate or defer work based on timing and scheduling and will not impact the 2019 Capital Budget.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2019 Capital Variance and Projection Summary for the Twelve Months Ended December 31, 2019
Appendix 2 Capital Projects for Closure
Appendix 3 Major Capital Projects
Appendix 4 In-Year Adjustments for the Twelve Months Ended December 31, 2019
Appendix 5 Capital Variance Dashboard by Program and Agency