

Capital Variance Report for the Four Months Ended April 30, 2021

Date: June 15, 2021
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 four month period ended April 30, 2021, as well as projected expenditures to December 31, 2021. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2021 Approved Capital Budget and Plan.

As illustrated in Table 1 below, City's 2021 capital expenditure was \$688 million or 13.0% of the 2021 capital budget of \$5.305 billion for the period ended April 30, 2021 and is projecting to expend \$4.415 billion or 83.2% by December 31, 2021.

Table 1: Capital Variance Summary

Table 1 Corporate Capital Variance Summary for the Period Ended April 30, 2021					
	2021 Approved Budget*	2021 4M Actual Expenditures		2021 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
City Operations	2,186	280	12.8%	1,726	79.0%
Agencies	1,640	217	13.2%	1,410	86.0%
Tax Supported	3,826	497	13.0%	3,137	82.0%
Rate Supported Programs:	1,479	191	12.9%	1,279	86.4%
TOTAL	5,305	688	13.0%	4,415	83.2%

*Note: Includes 2020 carry forward funding

The Capital spending pattern for the first four month typically ranges between 5% and 22% of the total Council Approved Capital Budget, with the 2021 experience of 13%. Total City projected spend of 83.2% by year-end is comprised of a Tax Supported Programs spending rate of 82.0% and a Rate Supported Programs spending rate of 86.4%.

Moving forward, the City will continue to plan annual capital projects in line with both affordability and achievability, based on the historical actual capacity. The strategy is expected to build on improvements experienced in 2020 and also improve capital spend rate in future years; enabling funding capacity otherwise going unspent to be directed to capital priorities.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

- 1. City Council approve in-year budget adjustments to the 2021-2030 Approved Capital Budget and Plan as detailed in Appendix 4.

FINANCIAL IMPACT

The capital expenditures in the first four months of 2021 total \$688 million and year-end expenditures are anticipated to increase to \$4.415 billion or 83.2% of the total 2021 Approved Capital budget. 28 of the 38 City Programs and Agencies have projected year-end spending rate in excess of 70%.

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

City Programs and Agencies are requesting City Council to approve the in-year budget adjustments. Table 2 below illustrates the summary of in-year adjustment request by funding sources. The total adjustments totalled to \$428.7 million, with a cash flow reduction of \$ 52.5 million in 2021 and additional future commitment of \$481.3 million in 2022-2030 Plan.

Table 2: Summary of In Year Adjustment Request by Funding Sources

(000s)	ADJUSTMENT REQUEST		
Total Adjustment of Funding Sources for all City Programs and Agencies	Total Adj.	2021 Cash Flow	2022-2030 Plan
Provincial Grants and Subsidies	180,000	26,560	153,440
Federal Subsidy	180,000	26,560	153,440
Debt	0	(55,629)	55,629
Debt Recoverable	0	(63,368)	63,368
Development Charges	301	(28,284)	28,585
Reserves	65,785	55,629	10,156
Reserve Funds	2,461	(14,210)	16,670
Other	192	192	-
City's Total	428,739	(52,549)	481,288

DECISION HISTORY

City Council approved the 2021 Rate-Supported Capital Budget of \$1.437 billion (meeting of December 16, 2020) and the 2020 Tax Supported Capital Budget of \$3.699 billion (meeting of February 18, 2021).

COMMENTS

Table 3 in the following page outlines capital spending for Tax and Rate Supported Programs for the Four Months Ended April 30, 2021 for major service areas.

Table 3: Capital Variance Summary

Table 2 Corporate Capital Variance Summary for the Period Ended April 30, 2021					
	2021 Approved Budget	2021 4M Actual Expenditures		2021 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
Tax Supported Programs:					
Community and Social Services	925	173	18.7%	771	83.3%
Infrastructure and Development Services	662	67	10.1%	525	79.4%
Corporate Services	502	39	7.7%	389	77.6%
Finance and Treasury Services	79	1	1.3%	25	31.4%
Corporate Initiatives	3	0	0.9%	2	44.8%
Other City Programs	15	1	5.6%	15	99.5%
Sub Total City Operations	2,186	280	12.8%	1,726	79.0%
TTC	1,284	184	14.3%	1,137	88.6%
Transit Expansion (TTC)	92	7	7.1%	89	96.5%
Other Agencies	264	26	9.9%	184	69.5%
Sub Total - Tax Supported	3,826	497	13.0%	3,137	82.0%
Rate Supported Programs:					
Solid Waste Management	96	6	5.7%	52	54.2%
Toronto Parking Authority	52	0	0.4%	47	89.8%
Toronto Water	1,331	185	13.9%	1,179	88.6%
Sub Total Rate Supported	1,479	191	12.9%	1,279	86.4%
Total	5,305	688	13.0%	4,415	83.2%

City Programs and Agencies project year-end capital expenditures of \$4.415 billion or 83.2% of the 2021 Approved budget. The projected spending rate in 2021 is driven broadly by major capital spending Programs and Agencies such as TTC, Toronto Water and Transportation Services:

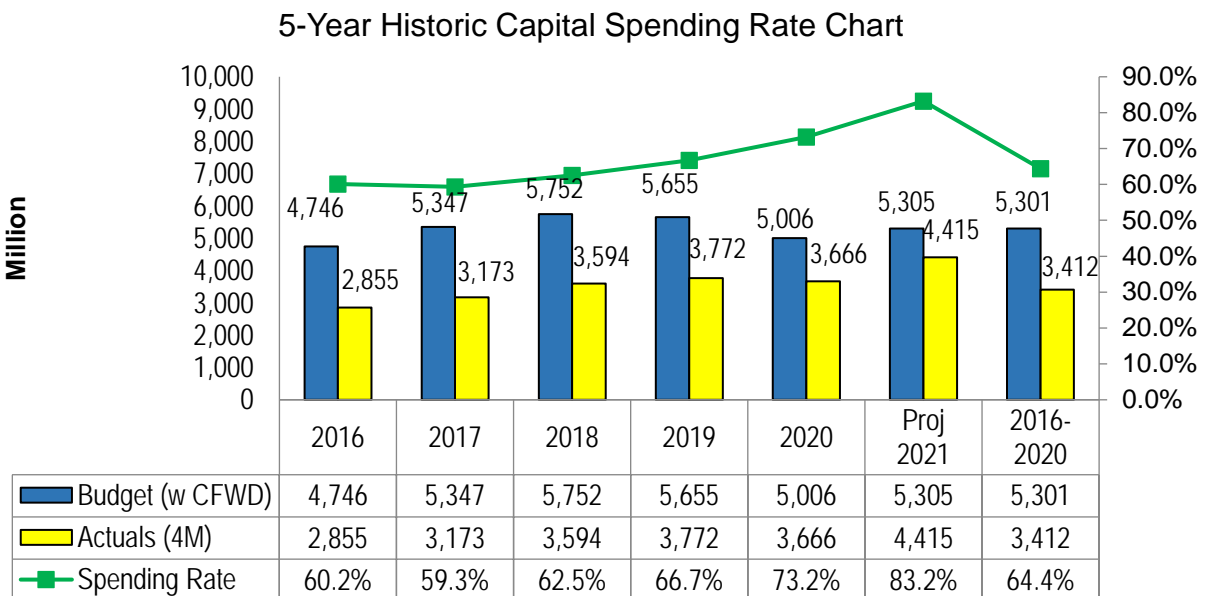
- TTC (Base Programs) is projecting to spend \$953.8 million or 93.9% of its 2021 Approved Capital Budget. The largest expenditures are expected to be on the *Purchase of Streetcars (\$137.6 million)*, *Other Buildings & Structures Projects*

(\$91.2 million), Purchase of Buses (\$87.2 million) and Computer Equipment & Software (\$79.8 million).

- Toronto Water is projecting to spend \$1.179 billion or 88.6% of its 2021 Approved Capital Budget. The largest expenditures are expected to be on *the Basement Flooding Relief project (\$130.5 Million)*, *Ashbridges Bay WWTP - Effluent System Project (\$120.8.0 Million)*, *Dist Watermain replacement project (\$110.4 million)*, and *Don & Waterfront Trunk/CSO project (\$74.0 million)*.
- Transportation Services is on track with most of its major projects including some of its biggest projects: *Local and Major Road Rehabilitation projects (\$112.8 million)*, the *F.G. Gardiner project (\$68.3 million)*, and *City Bridge Rehabilitation Critical projects (\$39.5 million)*. As a result Transportation Services is projected to spend \$382.5 million or 83.5% of its approved 2021 Capital Budget.

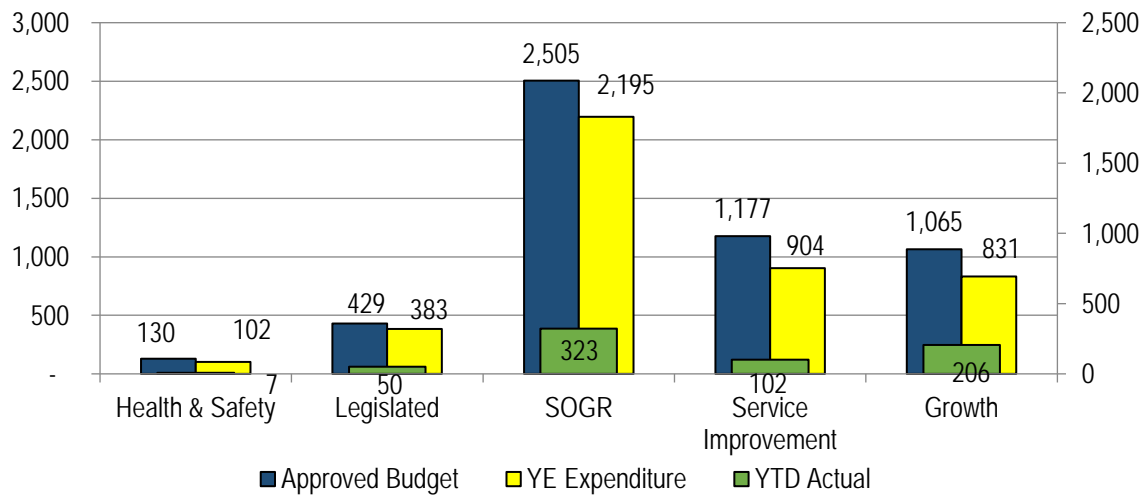
Figure 1 below compares the actual year-end spending rate in each of the years 2016 to 2020, showing the 5 year average from 2016 to 2020, and the projected 2021 year-end spending rate is detailed in this report. Spending rate is the actual capital spending amount as a percentage of the full year budget including in-year adjustments and carry forward from prior years' unspent budget. **As indicated in the annual chart below, the City's annual spending rate is trending up from year 2017's 59.3% to 2020's 73.2%. Based on the projection submitted by City Divisions and Agencies, this trend will continue in 2021.**

Figure 1: 2016 - 2020 Spending and 2021 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 2021 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2021 Approved Budget and Spending by Project Category (\$Millions)



Legislated and State of Good Repair (SOGR) projects have the two highest projected spending rate of 89.3% and 87.7% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.195 billion which is in line with the City's continued emphasis on SOGR investment. Health & Safety has the next highest projected spending rate of 78.2%. It is also anticipated that about 78.1% of the approved Capital Budget for Growth and 76.8% of Service Improvement 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.

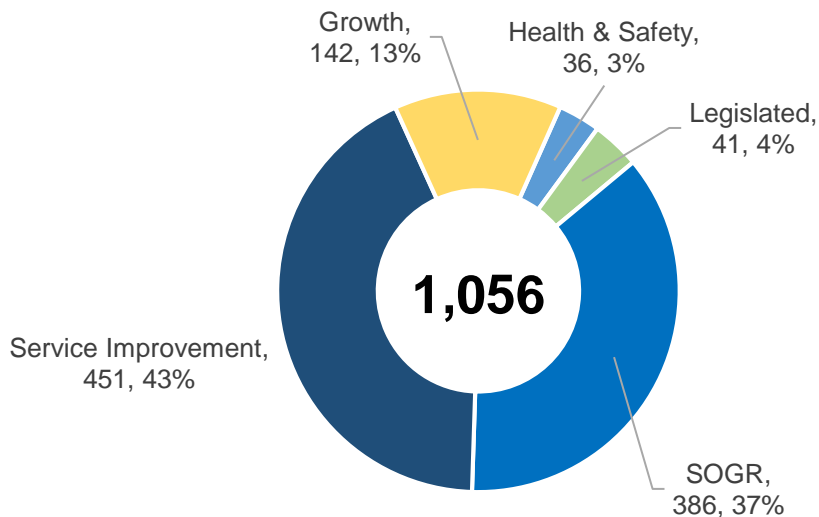
Table 4 below outlines 2021 City's capital expenditure and spending rate by project category.

Table 4: City Budget and Projected Spending by Project Category

Project Category (\$M) - 4M 2021	Approved Budget	YTD Actual	Projected YE Expenditure	Projected YE Rate
Health & Safety	130	7	102	78.2%
Legislated	429	50	383	89.3%
SOGR	2,505	323	2,195	87.7%
Service Improvement	1,177	102	904	76.8%
Growth	1,065	206	831	78.1%
Total	5,305	688	4,415	83.2%

As illustrated in Figure 3 below, the City has a total of 1,056 open capital projects at the end of 4 months of 2021.

Figure 3: 2021 Open Projects



Service Improvement projects account for the majority of open projects totalling 451 or 43% of the total City's capital projects. SOGR projects account for 386 or 37% 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.

Closed Capital Projects in the four months of 2021

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 2A details 3 capital projects from the Tax & Rate Supported Programs that have been completed in the four months of 2021 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$20.6 million and actual expenditures of \$16.1 million. This results in permanent underspending of \$4.5 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

In-year budget adjustments are recommended to the Economic Development and Culture's (EDC) 2021 Council Approved Capital Budget which will result in no changes in cash flow and debt requirements:

- Cash flow funding of \$0.302 million and \$0.340 million, funded by debt, will be reallocated from the Assembly Hall Mechanical project and the Sundial Folly project respectively to address the increased cost as a result of procurement issues for the Legislated Mechanical & Electrical project
- To support additional grants for the 2021 Mural Program, cash flow funding of \$0.070 million, funded by CFC, will be reallocated from the 2021 Streetscape Master Plan Program

Parks, Forestry and Recreation

City Council's authority is requested to amend the 2021 Capital Budget and 2022-2030 Capital Plan for Parks, Forestry and Recreation (PFR) by adjusting project cash flows to reflect the project delivery schedules and various park improvements and upgrades. The total change includes an overall net increase in project cost of \$2.653 million and cash flow funding of \$0.802 million in 2021 and \$1.850 million in 2022, fully funded by reserve funds, section 37, 42, and 45. The amendments have no incremental impact to the timing of debt requirements over the 10-year period and will align the 2021 Council Approved Capital Budget better with PFR's capital program requirements for 2021 and beyond.

Requested adjustments include an acceleration of \$0.380 million in cash flow funding from 2022 to 2021 for a settlement claim as a result of the prior Edithvale Park Land Acquisition project and a deferral of the same value to 2022 for the Dufferin Grove New Community Field House project, as the construction schedule has been delayed.

Additional 2021 cash flow funding requirements are necessary to supplement 5 existing projects: \$0.120 million for Maple Leaf Park fitness equipment (Ward 5), \$0.006 million for an outdoor ping pong table in Graham Park (Ward 12), \$0.008 million for outdoor fitness equipment in Derry Down Dell Park (Ward 7), \$0.008 million for outdoor fitness equipment in Bluehaven Park (Ward 7), and \$0.050 million for playground improvements at Upwood Greenbelt (Ward 5). These cash flow funding are fully funded by Section 37, 42, and 45 community benefits from developers specifically for park and

playground upgrades and improvements in respective neighbourhoods, resulting in no impact on 2021 approved debt for PFR.

PFR also seeks authority for previously approved cash flow of \$2.461 million, fully funded by the City Wide Parkland Development Cash-in-lieu Reserve Fund, which needs to be added back to 2021 and 2022 for the Lower Don Trail Phase 2 Improvements project that is being done in collaboration with Transportation Services.

Fleet Services

Net zero impact re-allocation of 2021 cash flows of \$3.500 million, \$0.450 million and \$0.100 million from the respective vehicle replacement projects of Solid Waste Management, Toronto Water and Municipal Licensing and Services to the vehicle replacement project in Toronto Fire, is requested in accordance with the acceleration/deferral adjustment approved by Council with the Q3 2020 Capital Variance report, that was not properly reflected in the 2021 Capital Budget approved by Council.

A net zero impact re-allocation of \$0.882 million between Toronto Library Vehicle replacement projects is also requested to more accurately align with capital spending needs.

Chief Information Security Office

To reallocate project cost and 2021 cash flow totalling \$0.300 million from the "Managed Security Service Provider" project (CCY001-05) to the "Cyber Command Centre" project (CCY001-07) to enable planning and consultation for project commencement in 2022.

Office of the Controller

Adjustments are recommended to the Office of the Controller's 2021 Approved Capital Budget as follows:

- Transfer of funding in the amount of \$0.491 million from "Finance Account System Transformation" and "FAST-Business Transformation" capital projects to "Financial System Transformation" project.
- Transfer of funding in the amount of \$0.189 million from "Employee Service Centre (ESC)" project to "PPEB Transformation Program" project.

These adjustments are recommended in order to consolidate funding for the Major Transformation projects that are currently underway and have zero impact on debt and overall 2021 Council Approved Capital Budget for the Office of The Controller.

Toronto Public Library

The York Woods Renovation project is experiencing construction cost escalation of \$2.066 million that is primarily related to site conditions, impacts from the Cross Town Metrolinx Project and COVID-19 pandemic. The \$2.066 million gross budget increase will be funded by \$0.301 million in development charges, and \$1.765 million in Council approved debt funding to be transferred from the Multi-branch renovation project.

Solid Waste Management Services

As detailed in Appendix 4, City Council's authority is requested to amend the 2021 Capital Budget and 2022-2030 Capital Plan for Solid Waste Management Services by adjusting project cash flows to reflect the project delivery schedules and program requirements. Overall, the adjustments reflect a total net cash flow reallocation and deferral of \$14.820 million from the 2021 Capital Budget to the 2022-2030 Capital Plan, all reserve funded.

Requested adjustments include the deferral and realignment of cash flows for the Green Lane Cell Excavation project from 2021 to 2026 to meet the Division's work plan requirements at the site in the amount of \$10.420 million. Funding source is the Green Lane Reserve Fund.

In order to facilitate the ongoing requirements of the Long Term Waste Management Strategy, \$0.192 million in 2021 cash flow funding for the subproject for Promotion & Education is being reallocated to the subproject for Extended Producer Responsibility for a net zero impact. Funding source is the Waste Management Reserve Fund. A deferral of cash flows in the amount of \$3.100 million from 2021 to 2023 for the project for Fleet Technology Enhancements is recommended to realign to the current work plans.

Transfer Station Asset Management projects require a reallocation of \$1.300 million from 2021 to 2022, from the subproject for the Bermondsey Transfer Station (\$0.900 million) and from the subproject for the Ingram Transfer Station (\$0.400 million), to the subproject for the Dufferin Transfer Station. This also includes an acceleration of cash flow funding to 2022 from plan year 2028 (\$1.000 million) and 2030 (\$1.263 million) to meet the requirements of the Bid Award for the work at the Dufferin Transfer Station. The work plan includes demolition, construction and salvage of material recovery sorting equipment and other upgrades to the Dufferin Building 500. Funding source is the Waste Management Reserve Fund.

Toronto Transit Commission

Toronto Transit Commission is seeking to amend the 2021 Approved Capital Budget and the 2022-2030 Capital Plan with an overall increase of \$425.785 million over the 10 year period to incorporate the recent decision made by Council on May 26th, 2021 regarding the Streetcar Program (Procurement of 60 Streetcars (CC33.1)) and to align cash flows with capital delivery and project requirements for various projects in its capital program. The budget adjustments reflect the reallocation of funding sources to accommodate the increase in Federal, Provincial and City funding for the Streetcar Program and other adjustments such as from savings due to advancement of construction contracts that allows for the reallocation of funds to other projects.

CONTACT

Stephen Conforti, Executive Director, Financial Planning
Tel: 416-397-4229, Email: Stephen.Conforti@toronto.ca

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

SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2021 Capital Variance and Projection Summary for the Four Months Ended April 30, 2021
Appendix 2A 2021 4M Capital Projects Recommended for Full Closure
Appendix 2B 2021 4M Capital Projects Recommended for Partial Closure
Appendix 3 2021 4M Major Capital Projects
Appendix 4 In-Year Adjustments for the Four Months Ended April 30, 2021
Appendix 5 2021 4M Capital Variance Dashboard by Program and Agency