2012 In-Year Capital Budget Adjustments and Capital Carry-Forward Funding Adjustments to the 2013 Approved Capital Budget

Date: March 20, 2013
To: Budget Committee
From: Deputy City Manager and Chief Financial Officer
Wards: All
Reference Number: P:\2013\Internal Services\Fp\Bc13010Fp (AFS #16745)

SUMMARY

The purpose of this report is to seek Council’s approval for 2012 In-Year Capital Budget Adjustments and Carry-Forward Funding Adjustments to the 2013 Approved Capital Budget of $471.093 million. Carry forward adjustments are in compliance with the City's Carryforward Policy and have no impact on the City's debt levels.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommend that:


2. Council approve additional carry forward funding for unspent capital expenditures totalling $471.093 million as detailed in Appendix 2, in order to continue work on previously approved capital projects, and that the 2013 Approved Capital Budget be adjusted accordingly with no incremental impact on debt.

3. Council approve the transfer of funds from the Sustainable Energy Plan to Exhibition Place in the amount of $4.5 million funded from recoverable debt with 2012 carry forward funding of $0.1 million, and cash flows estimates of $2.4 million in 2013 and $2.0 million in 2014 for the Energy Project that will the connect existing energy generation assets at Exhibition Place.
4. Council authorize and direct the appropriate City Officials to take the necessary action to give effect thereto.

**FINANCIAL IMPACT**

Approval of the recommended 2012 in-year adjustments will reduce the 2012 Approved Capital Budget by $85.136 million, primarily by reducing Toronto Water's 2012 Approved Capital Budget by $85.106 million.

This recommended adjustment for Toronto Water's 2012 Approved Capital Budget results from realignment of project costs and cash flows with actual expenditures, reflecting spending on a number of projects where favourable weather conditions facilitated construction schedules and also due to the fact that Toronto Water reduced the contingency amounts not further required for multi-year sub-projects that have reached substantial completion in 2012, as described on page 3. As a result, funding contribution requirements from Toronto Water Capital Reserve Funds have been reduced by an equivalent amount of $85.106 million.

The total financial impact to the 2013 Approved Capital Budget arising from the adoption of the additional carry forward funding requests in this report is $471.093 million with no incremental impact on debt, increasing the total 2013 carry forward funding from $725.825 million to $1.197 billion. Recommended incremental carry forward funding will increase 2013 Approved Capital Budget from $3.6 billion to $4.071 billion.

**ISSUE BACKGROUND**

This report is provided pursuant to good business practices and budgetary control. As part of the City’s accountability framework, capital spending reports are submitted to Committees and Council on a periodic basis in order to provide information on how the implementation of approved capital programs is progressing, and on an exceptions basis, to identify issues that require direction and/or decisions from Council.

**COMMENTS**

With the approval of the 2013 Capital Budget by Council in January and the Final Year-End Variance Report projected for June 2013 once the year-end audit is finalised, it is critical to ensure appropriate cash flow authorities are in place to enable City Programs and Agencies to continue capital works on previously approved projects. City Programs and Agencies are requesting Council's approval for 2012 in-year budget adjustments and carry-forward funding to 2013 Capital Budget.
2012 In-Year Capital Budget Adjustments

In -year budget and technical adjustments to the 2012 - 2021 Approved Capital Budget and Plan require approval by Council.

As detailed in Appendix 1, technical and in-year budget adjustments are requested by various Programs and Agencies. The majority of the adjustments are required to provide funding to accommodate increased unforeseen additional work and to align project cost and actual spending.

Facilities Management & Real Estate (FM&RE) requests 2012 Approved Capital Budget in-year technical adjustments to realign projects cash flow with actual spending levels for 2012. These adjustments are recommended mainly to offset the increased expenditures for the premises at 60 Queen Street West to undertake HVAC Upgrades not originally anticipated to be completed in 2012. Any increase in cash flow or project cost is offset by reduction in other projects and result in no incremental debt impact on the 10-year Approved Capital Budget and Plan for FM&RE.

Recommended in-year budget adjustments for Toronto Transit Commission's 2012 Approved Capital Budget are requested to reflect the final year actual financing sources applied to capital projects and allow for appropriate carry forward funding for uncompleted capital projects. Adjustments include reductions/increases to debt as well as offsetting reductions/increases to other funding sources that result in a slight reduction to debt of $0.061 million in 2012. In order to deplete the Ontario Rolling Stock Infrastructure Fund and Transit Technology Infrastructure Fund reserves based on higher than expected interest revenue, authority is being sought for a budget increase to Reserve Funds of $0.061 million. This funding adjustment includes a reduction to debt of the same amount for a net zero overall impact in 2012. Other adjustments include expense and funding increases and reductions to capital projects to align with 2012 spending and funding applications. Some of the projects include Subway Track, Surface Track, Signal Systems, Subway Car Purchases, Bus Heavy Rebuild Program, Purchase of Streetcars and the Toronto Rocket Yard and Storage Track Accommodation.

The 2012 Capital Budget in-year adjustments requested by Toronto Water realign project costs and cash flows with the 2012 actual expenditures which reflect spending on large scale multi-year projects including the Automated Meter Replacement (AMR) Program, the Rehabilitation of the Sludge Thickening Building at Highland Creek Treatment Plant, Upgrade of the Preliminary Process Area at Ashbridges Bay Treatment Plant project, and a number of smaller projects such as Trunk Sewer Rehabilitation and Road Restoration, where favourable weather conditions facilitated construction schedules. The higher spending on these projects was offset by delayed spending due to labour disruption planning. Major projects impacted by delay include the Engineering and Design of Linear Infrastructure, the New Sub-Station at Humber Treatment Plant and Storm Water Management Facilities in the area of Budapest Park. Toronto Water also realized favourable pricing on the Basement Flooding Projects. In-year budget adjustments are also recommended to realign project costs and cash flows with the 2012 actual expenditures, since Toronto Water has reduced the contingency amounts for many
of their multi-year sub-projects that have reached substantial completion in 2012. Recommended in-year budget adjustments reduce Toronto Water’s 2012 Approved Capital Budget as well as equivalent funding contribution requirements from Toronto Water Capital Reserve Funds by $85.106

On July 11, 12, and 13, 2012, City Council approved the report entitled "Energy Project at Exhibition Place" and subsequently increased the 2012-2021 Approved Capital Budget and Plan for the Sustainable Energy Plan. The Energy Project will connect existing energy generation assets at Exhibition Place to supply heating, cooling and water heating to the proposed hotel development as well as to existing event facilities including the Ricoh Coliseum, Coliseum Complex, Direct Energy Centre, and Allstream Centre. As the Energy Project at Exhibition Place is conditional on an energy services agreement between Exhibition Place and Princes Gates Hotel Limited Partnership, it is recommended that the $4.5 million in project funding be transferred to the Exhibition Place's Capital Budget, as they will deliver the capital project.

**Additional Carry Forward Capital Funding**

The City’s Carry Forward Policy permits City Programs and Agencies to adjust their prior year carry forward requirements based on updated year-end information.

For the timing of the 2013 Budget process, the majority of Programs and Agencies were not able to submit or accurately calculate the carry-forward funding needed for completion of 2012 and prior year capital projects during the 2013 Capital Budget Approval Process. With the 2012 year-end now closed, Program and Agencies can accurately identify the value of carry forward funding required to be approved to complete prior year projects. It is necessary that these adjustments now be approved to provide appropriate cash flow funding authorities to continue capital project delivery in 2013.

In accordance with the City's Carry Forward Policy, approval is being sought to carry forward funding for uncompleted 2012 projects with no incremental impact on debt. However, carry forward funding requests that are funded by debt for cash flow approved in 2011 and prior years must be offset by 2013 approved cash flow deferrals that have an equivalent debt value in order to not impact approved debt funding levels.

During 2013 Capital Budget process, City Council approved carry forward funding of $725.825 million in unspent funding to complete prior year projects. Appendix 2 details the incremental carry forward funding adjustments totalling $431.117 million for 2012 approved capital projects and incremental carry forward funding adjustments totalling $39.976 million for 2011 and prior year capital projects. Approval of these incremental carry forward adjustments will increase total carry forward funding from $725.825 to $1.197 billion, while increasing the 2013 Approved Capital budget to $4.072 billion.
It is noted that reductions included in Appendices 2 are to adjust for overstated carry forward funding estimates already included in the 2013 Council Approved Capital Budget.

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**SIGNATURE**

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Deputy City Manager and Chief Financial Officer

**ATTACHMENTS**

- Appendix 1  2012 In-Year capital Budget Adjustments
- Appendix 2  2012 Carry Forward Funding