

**Capital Variance Report for the Year Ended
December 31, 2014**

Date:	April 22, 2015
To:	Budget Committee Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2015\Internal Services\Fp\Bc15012Fp (AFS #20929)

SUMMARY

The purpose of this report is to provide Council with the City of Toronto Capital Variance for the year-ended December 31, 2014. Furthermore, this report identifies the closure of an additional 41 capital projects resulting in a total combined project budget savings of \$34.585 million with \$24.992 million funded by recoverable debt; \$9.484 million funded by TPA earnings; and \$0.109 funded by third party funding. For all of 2014, the City completed and closed 368 projects resulting in savings of \$71.5 million.

Capital expenditures for the twelve months ended December 31, 2014 totalled \$2.698 billion or 62.8% of the 2014 Approved Capital Budget of \$4.292 billion (see Table 1). This spending pattern is consistent with prior years.

For the year- ended December 31, 2014, Tax Supported Programs and Agencies reported capital expenditures of \$2.065 billion representing 59% of their collective 2014 Approved Capital Budget of \$3.500 billion. Rate Supported Programs reported capital expenditures of \$632.421 million, representing 79.9% of their collective 2014 Approved Capital Budget of \$791.946 million.

Table 1

Corporate Capital Variance Summary for the Period Ended December 31, 2014 (\$000s)			
	2014 Approved Budget	Actual Expenditures - January 1 to December 31, 2014	
		\$000s	%
Tax Supported	3,500,236	2,064,769	59.0
Rate Supported	791,946	632,421	79.9
TOTAL	4,292,182	2,697,190	62.8

The rate of spending in 2014 was driven largely by expropriation process delays for the acquisition of various sites, poor weather conditions, longer than planned timelines to obtain necessary approvals or required permits; delays in securing funds from cost-sharing partners; design issues and difficulty in securing necessary resources for project delivery.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. Council receive for information Appendix 2 which lists 41 completed capital projects/sub-projects to be closed resulting in a total combined project budget savings of \$34.585 million.

Financial Impact

Table 2 below outlines the 2014 actual expenditure for Tax and Rate Supported Programs for the year ended December 31, 2014.

Table 2

Corporate Capital Variance Summary for the Period Ended December 31, 2014 (\$000s)			
	2014 Approved Budget	Actual Expenditures - January 1 to December 31, 2014	
		\$000s	%
Tax Supported Programs:			
Citizen Centred Services - "A"	291,951	147,191	50.4
Citizen Centred Services - "B"	514,838	359,905	69.9
Internal Services	450,141	248,859	55.3
Other City Programs	116,553	62,510	53.6
Sub Total City Operations	1,373,483	818,465	59.6
Agencies	2,126,753	1,246,304	58.6
Sub Total - Tax Supported	3,500,236	2,064,769	59.0
Rate Supported Programs:			
Toronto Parking Authority	71,009	6,424	9.0
Solid Waste Management	103,975	38,171	36.7
Toronto Water	616,962	587,826	95.3
Sub Total Rate Supported	791,946	632,421	79.9
Total	4,292,182	2,697,190	62.8

- **City Operations** reported capital expenditures of \$818.465 million or 59.6% of their collective 2014 Approved Capital Budget of \$1.374 billion as of December 31, 2014.
- **Agencies** reported capital expenditures of \$1.247 million or 58.6% of their collective 2014 Approved Capital Budget of \$2.127 billion, for the year-ended December 31, 2014.
- **Rate Supported Programs** reported capital spending of \$632.421 million or 79.9% of their collective 2014 Approved Capital Budget of \$791.946 million, for the year-ended December 31, 2014.

ISSUE BACKGROUND

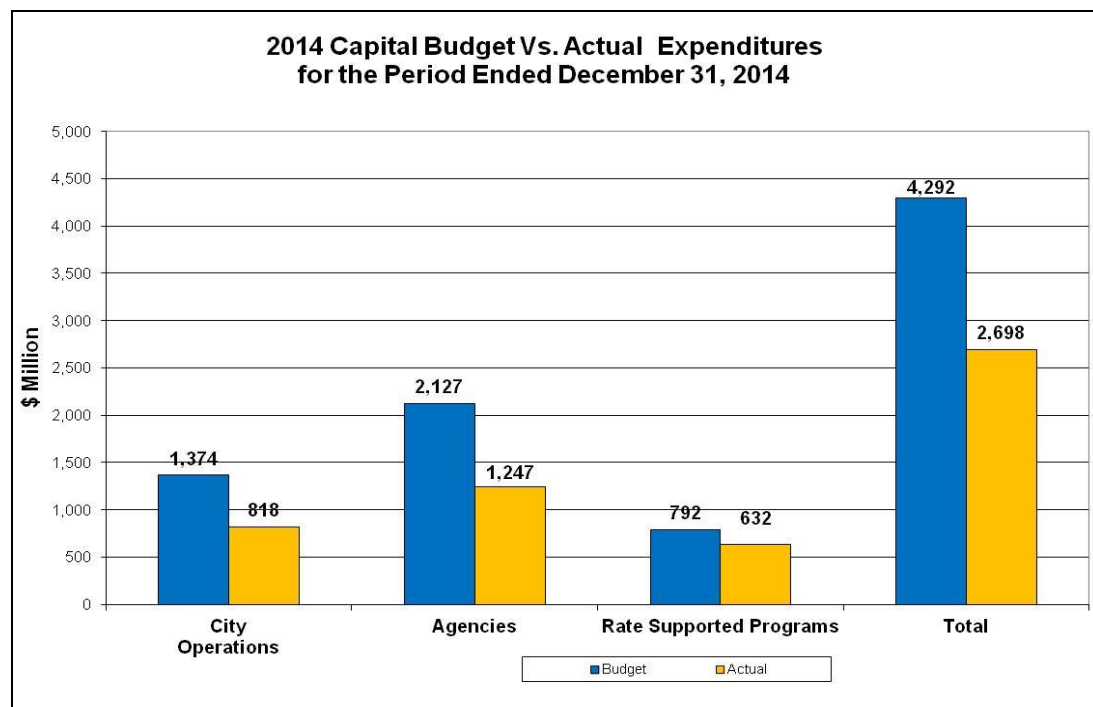
This report is provided pursuant to financial management and budgetary control best practices. As part of the City's accountability framework, a year-end capital variance report is submitted to Committees and Council in order to provide information on how the approved capital works have progressed during 2014, the actual spending incurred

against the 2014 Approved Capital Budget and on an exceptional basis, to identify issues and recommend corrective action as necessary.

COMMENTS

At its meetings of December 16-17, 2013, Council approved a 2014 Rate-Supported Capital Budget of \$602.191 million; and at its meetings of January 29-30, 2014, Council approved a 2014 Tax Supported Capital Budget of \$2.212 billion for a total of \$2.814 billion. The 2014 Rate-Supported Capital Budget consists of \$476.713 million for Toronto Water, \$49.001 million for Toronto Parking Authority and \$76.477 million for Solid Waste Management Services. Including additional 2013 carry forward funding and 2014 in-year budget adjustments for all City Tax and Rate Programs and Agencies, the 2014 Adjusted Capital Budget is \$4.292 billion (see Chart 1).

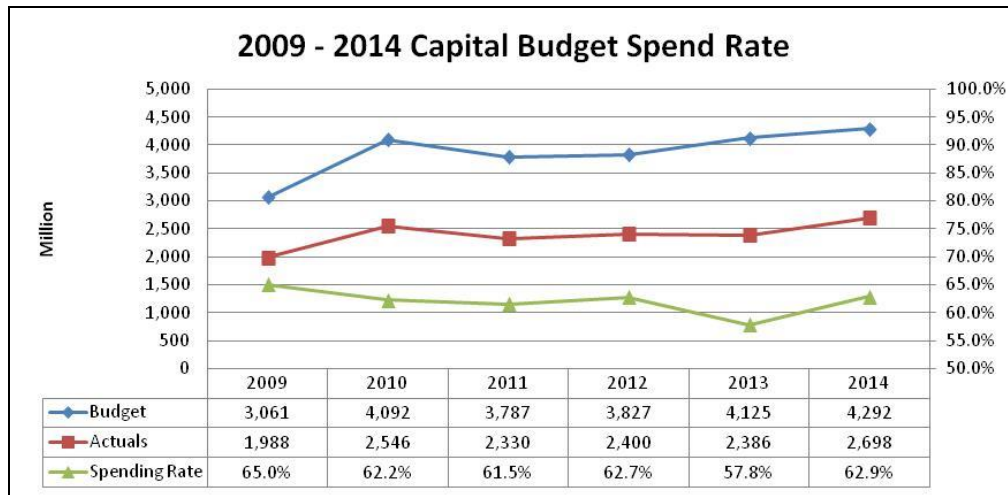
Chart 1



Under-spending during 2014 was primarily experienced in Parks, Forestry & Recreation, Facilities Management & Real Estate, Toronto Transit Commission, Toronto Police Services and Solid Waste Management Services. These Programs and Agencies account for \$2.618 billion or 61% of the total 2014 Approved Capital Budget and \$1.172 billion or 71% of total under spending at 2014 year-end.

Notwithstanding the above spending rate, a number of projects are on track and were completed in 2014. As well, a portion of the reported under spending is attributable to savings from completed projects coming in under budget.

Chart 2



As outlined in the chart above over the past 5 years both the approved capital budget (including carryforward funding) and the actual spending have been steadily trending upward at a similar pace, resulting in an average spending rate of 62%. In addition, actual capital spending for 2014 was almost \$2.7 billion - the highest level ever.

Tax Supported Programs

City Operations

For the year-ended December 31, 2014, actual capital expenditures for City Operations totalled \$818.465 million or 59.6% of their collective 2014 Approved Capital Budget of \$1.374 billion.

The major contributors to the year-end spending rate can be attributable to the following programs:

- ***Parks, Forestry and Recreation (PF&R)*** incurred capital expenditures of \$97.522 million or 50.5% of its 2014 Approved Capital Budget of \$193.009 million as of December 31. \$31.379 million of 2014 approved cash flow was allocated for projects that are completed and include:
 - New *Regent Park* project (\$6.250 million).
 - *Donald D. Summerville Outdoor Pool* project (\$2.400 million).
 - *Hodgson Artificial Ice Rink* project (\$2.050 million).
 - Replacement of 3 bridges, trail upgrades, and repair of erosion scar in Taylor Creek Park (\$1.275 million).
 - *June Callwood Park* project (\$2.600 million).
 - *Cawthra Square* project (\$1.650 million).
 - New water plays at the *Belmar Park* and *Seven Oaks Park* (\$0.935 million).

- Development of a new community garden and courtyard at 40 Oak Park (\$0.500 million).

The underspending for this Program is mainly due to expropriation process delays, land transfer issues, environmental approvals, pro-longed environmental soil remediation and testing requirements, extended community consultations, construction and programming restrictions and poor weather conditions.

- **Transportation Services** had spending of \$279.848 million or 70.6% of its 2014 Approved Capital Budget of \$395.516 million for the year- ended December 31, 2014. Of the funds spent, \$99.613 million was incurred for completed projects representing 96.2% of their combined 2014 approved cash flow of \$103.567 million. In addition, Transportation Services spent \$172.448 million on projects that are on track. They are ongoing projects that include the following:
 - The *Major Roads Rehabilitation* program (\$40.432 million spent and \$7.471 million carried forward) and the *Local Road Rehabilitation* program (\$34.600 million spent and \$2.900 million carried forward).
 - The *City Bridge Rehabilitation* program (\$12.052 million spent and \$7.743 million carried forward).
 - The *F. G. Gardiner Expressway* project (\$57.320 million spent and \$1.916 million carried forward). The Elevated portion is ahead of schedule and a carry forward funding of \$1.916 million to 2015 was processed for the At-Grade Replacement portion. Construction has been completed on the median replacement and the bent repair projects and three bridge rehabilitation projects west of the Humber River.
 - Most of the underspending is due to capital projects that require third party coordination and/or funding or are development/transit dependant.
- **The Waterfront Revitalization Initiative** incurred capital expenditures of \$65.356 million or 81.4% of the 2014 Approved Capital Budget of \$80.252 million for the year-ended December 31, 2014. Construction of the second subway platform at Union Station and associated concourse improvements are forecasted to be on schedule and completed in May/June 2015.
- **Facilities Management & Real Estate (FM&RE)** incurred expenditures of \$144.717 million or 49.7% of its 2014 Approved Capital Budget of \$291.184 million for the year- ended December 31, 2014. FM&RE addressed State of Good Repair (SOGR) projects of varying size with a 2014 approved cash flow of \$41.378 million and spending of \$24.659 million or 59.8% by year-end. 59 SOGR projects were completed during 2014 to address numerous backlog issues across the portfolio of facilities. Total costs incurred for these completed SOGR projects were \$8.240 million or 89.2% of the total approved cash flow funding of \$9.238 million, representing total savings of \$0.998 million.

The year-end under spending for FM&RE is mainly due to the need to address unanticipated site conditions, design changes, re-tendering and change in contractors and weather conditions.

The *Union Station Revitalization (USR)* project's capital expenditures totaled \$93.935 million or 49.4% of the 2014 approved cash flow of \$190.016 million as of December 31, 2014. Phase 1 of the project experienced delays mainly due to found site conditions such as heritage and environmental elements including designated substances and the need for coordination of construction amongst stakeholders and other projects in the precinct. The unspent cash flow funding of \$96.082 million has been carried forward to 2015 to complete the remaining of Phase 1. The total project cost of \$796.4 million remains unchanged from the latest approved budget.

City Agencies

For the year-ended December 31, 2014, actual capital expenditures for City Agencies totalled \$1.247 million or 58.6% of their collective 2014 Approved Capital Budget of \$2.127 billion. The majority of the 2014 approved cash flow funding was provided for ongoing capital work, with a substantial amount allocated to multi-phase TTC capital projects that will be completed in future years.

- ***Toronto Police Services (TPS)*** which spent \$31.344 million or 55.4% of its 2014 Approved Capital Budget of \$56.589 million for the year- ending December 31, 2014. Of the funds spent, \$13.146 million or 41.9% was incurred for such projects as *Parking East Facility, Vehicle Replacement, Workstation, Laptop and Printer – Lifecycle Plan* and *Radar Unit Replacement* that have a combined 2014 approved cash flow of \$17.315 million. These projects were completed by year-end with the exception of the *Parking East Facility* project that is expected to be completed in 2015 and to be under-spent by \$1.2 million due to lower than anticipated construction costs.

Projected saving of \$2.215 million realised in the *Property and Evidence Management Facility* project and the *Parking East Facility* project due to lower than anticipated construction costs will be returned to the City.

- ***Toronto Public Library (TPL)*** spent of \$29.848 million or 93.6% of its 2014 Approved Capital Budget of \$31.900 million for the year-ended December 31, 2014. Of the funds spent, \$1.988 million was incurred for projects that were completed in 2014. These include:
 - The *Brentwood Library Renovation* project (\$8.123 million total project cost)
 - The *Mount Dennis Library Renovation* project (\$3.559 million total project cost)
 - The *Self-Service Circulation and Automated Sorters* project (\$10.919 million total project cost)

The balance spending of \$27.860 million incurred for the multi-year projects scheduled for the completion in future years.

The year-end underspending is due to delays at the start of construction and lower than anticipated costs of addressing deficiencies after construction.

- ***Toronto Transit Commission's (TTC)*** (including *Toronto-York Spadina Subway Extension (TYSSE)* and *Scarborough Subway Extension*) capital expenditures for the year-ended December 31, 2014 totalled \$1.135 billion, or 57.5%, of the 2014 Approved Capital Budget of \$1.974 billion. Projects that were completed in 2014, include the *Birchmount Garage Renovation* project and the *Commuter Parking Expansion* project. These projects, totalling \$52.740 million in project costs and expenditures of \$52.276 million or 99%.

In addition, the TTC spent \$757.151 million on the multi phase projects that are on track and will be completed in future years. These projects include:

- The *Easier Access* project (\$22.953 million);
- The *Toronto Rocket Yard and Storage Accommodation* project (\$35.977 million);
- The *Leslie Barns LRT Maintenance and Storage Facility* project (\$147.069 million);

The year-end under-spending is largely due to launching of the Environmental Assessment (EA) process, delays in the low-rise vehicle delivery schedule and construction scheduling challenges on the Toronto-York Spadina Subway Extension.

Rate Supported Programs

For the year-ended December 31, 2014, actual capital expenditures for Rate Supported Programs totalled \$632.421 million or 79.9% of their collective 2014 Approved Capital Budget of \$791.946 million. The majority of the 2014 approved cash flow funding is for large multi-year projects. The following highlights the capital achievements for year-ended December 31, 2014:

- ***Solid Waste Management Services' (SWMS)*** capital expenditures for the year-ended December 31, 2014 totalled \$38.171 million or 36.7% of the 2014 Approved Capital Budget of \$103.975 million. Of the funds spent by year-end, \$10.390 million was spent on the multi-year projects that are on track for completion in future years:
 - The *Collection Yard Asset Management* project with a 2014 approved cash flow funding of \$0.693 million.
 - The *Work Management System* project with 2014 approved cash flow funding of \$0.758 million; and
 - The multi-year *Diversion Systems* project for the *Replacement Waste Bins-Single Family* project with 2014 approved cash flow funding of \$2.515 million.

The projected under-spending at year-end is due to the reissuance of a Request for Proposal, engineering design and planning revisions, weather conditions, legal disputes, and on-going resolution of specific system deficiencies. Required funding will be carried forward to complete projects in 2015.

- **Toronto Water** spent \$587.827 million or 95.3% of the 2014 Approved Capital Budget of \$616962 million for the year- ended December 31, 2014. The Division made significant progress on state of good repair projects to address infrastructure renewal such as *Watermain and Sewer Rehabilitation*; improvements at *Highland Creek Treatment Plant*; improvements at *Ashbridges Bay Treatment Plant*; implementation of the *Basement Flooding Relief* projects; and *Transmission & Storage Facilities* project. Together, these projects exceeded the targeted spend rate of 85% by almost 10%.

Toronto Water's expenditures were below the targeted 85% spend rate for several planned projects due to delays in the tendering of the contracts in part due to delays in permit approvals, and also in some instances due to complexity of the engineering and design of the linear infrastructure as well as the prevailing ground/site conditions. These projects include *Business & Process Control System Improvements* project; *Facility* improvements to *Island Treatment Plant and FJ Horgan Treatment Plant*; *Wet Weather Flow* projects; *Yard and Facility Improvements* project.

A detailed explanation of the capital work during 2014 for each City Program and Agency can be found in Appendix 3 of this report.

Closed Capital Projects

Over the last two years, the City has focused on the closing of completed capital projects. Closing of the completed capital projects in a timely manner identifies savings and allows staff to return funding to their original source. This then frees scarce funds for future capital projects and avoids the issuance of debt that may have been required. It is also noted that the closure of projects / subprojects enable staff to focus attention only on active projects, and supports better and more efficient and accurate variance reporting.

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. 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 lastly debt. In accordance with the Finance 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 as they are generally for specific purposes and can only be used for the specific projects
- 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

- Debt is applied only lastly and for the purposes for which the debt was issued. The unspent debt portion will not be issued.

As detailed in Appendix 2, at year-end, an additional 41 capital projects are fully completed and will be closed. These fully completed projects have a total approved project budget of \$55.890 million and actual spending of \$24.452 million, representing total savings of \$31.438 million, with \$24.844 million funded by recoverable debt and \$9.704 funded by TPA earnings.

The number and value of the fully completed and closed projects at year-end relate to the following programs:

Solid Waste Management fully completed 11 projects with a total project budget of \$32.842 million, actual expenditures of \$7.851 million and savings of \$24.992 million.

Toronto Parking Authority fully completed 25 projects with a total project budget of \$19.080 million, actual expenditures of \$9.595 million and savings of \$9.485 million.

Exhibition Place fully completed 5 projects with a total project budget of \$7.115 million, actual expenditures of \$7.006 million and savings of \$0.109 million.

In addition to fully completed projects, 12 capital sub-projects are completed within 9 Council approved projects. These projects will remain open to allow continuation of capital work and residual funds will be used to complete remaining phases or sub-projects of the approved capital projects. These partially closed capital projects have a combined approved total project budget of \$154.251 million and total life-to-date spending of \$121.178 million. The remaining Council approved funding available for outstanding phases or sub-projects is \$32.972 million.

For the entire 2014 year, the City completed and closed 368 projects that had a budget of \$652.3 million. The final cost of these closed projects was \$580.8 million resulting in a savings of \$71.5 million. Funding sources for realised saving are shown in table below:

Table 3
Realised Savings by Funding Source
(Million)

Provincial/ Grants	
Federal Subsidy	0.2
CFC	1.8
Debt	24.7
DC	
Reserve/ Reserve Funds	7.0
Recoverable Debt	24.9
TPA Earning	9.5
Other (Donations, Third Party Funding, etc.)	3.4
Total	71.5

Tax Supported Programs fully completed 259 projects with total project cost of \$558 million, actual expenditure of \$521.9 million resulting in saving of \$36.1 million of which \$24.7 million was funded by debt; \$0.2 million funded by federal funding; \$1.8 million funded by CFC; \$3.3 funded by reserve/reserve funds; and, \$3.4 million funded by other funding sources such as donation and third party funding.

Rate Supported Programs fully completed 109 projects with total project cost of \$94.4 million, actual expenditure of \$58.9 million resulting in saving of \$35.5 million of which \$1.1 million was funded by reserve/reserve funds; \$24.9 million funded by recoverable debt; and \$9.5 million funded by TPA earnings.

Table 4 outlines project costs, actual expenditures and savings realised from closure of completed Capital projects during 2014.

Table 4

Tax Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Year-End	Total 2014
# of Closed Projects	152	1	4	97	5	259.0
Project Budget (\$M)	350.9	0.1	17.0	182.8	7.1	558.0
Actual Expenditure (\$M)	335.9		17.0	162.0	7.0	521.9
Savings (\$M)	15.0	0.1		20.8	0.1	36.1
Savings in Debt Funding (\$M)	10.7			14.0		24.7

Rate Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Year-End	Total 2014
# of Closed Projects	59.0			14.0	36.0	109.0
Project Budget (\$M)	29.7			12.8	51.9	94.4
Actual Expenditure (\$M)	29.0			12.5	17.4	58.9
Savings (\$M)	0.7			0.3	34.5	35.5

All City Programs/Agencies	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Year-End	Total 2014
# of Closed Projects	211.0	1.0	4.0	111.0	41.0	368.0
Project Budget (\$M)	380.6	0.1	17.0	195.6	59.0	652.3
Actual Expenditure (\$M)	364.9		17.0	174.5	24.5	580.8
Savings (\$M)	15.7	0.1		21.2	34.6	71.5
Savings in Debt Funding (\$M)	11.7			14.3		24.7

As shown in Table 5, during last 5 years, City Programs and Agencies completed capital work on 1,664 capital projects that have had a combined total project cost of \$3.848 billion and actual expenditures of \$3.446 billion, coming under budget by \$399 million, of which \$141 million resulted in avoided debt funding.

Table 5

	2010	2011	2012	2013	2014	Total
# of Projects Closed:	271	409	383	233	368	1,664
Project Budgets (\$M)	413	731	495	1,557	652	3,848
Actual Capital Expenditure (\$M)	399	671	423	1,374	581	3,448
Savings (\$M)	14	114	16	183	72	399
Savings in Debt Funding (\$M)		5	8	103	25	141

A consolidated list of projects and sub-projects to be closed will be forwarded to the Accounting Services Division which will preclude any further processing of transactions against them. Accounting Services staff will ensure that all expenditures for the identified capital projects/sub-projects are fully funded prior to closure.

CONTACT

Josie La Vita, Executive Director
Financial Planning
Tel: 416 397-4229
Fax: 416 397-4465

Andy Cui, Manager
Financial Planning
Tel: 416 397-4207
Fax: 416 397-4465

SIGNATURE

Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

- Appendix 1 - 2014 Consolidated Capital Variance Report for the Year-Ended December 31, 2014
- Appendix 2 - Capital Project to be Closed
- Appendix 3 - Capital Variance Explanation - Programs/Agencies