



**STAFF REPORT
ACTION REQUIRED**

**2015 Capital Budget Carry Forward Funding Adjustments,
2014 Projects Closure and 2015 Operating Budget
Re-allocation**

| | |
|--------------------------|---|
| Date: | April 8, 2015 |
| To: | Budget Committee |
| From: | Deputy City Manager & Chief Financial Officer |
| Wards: | All |
| Reference Number: | P:\2015\Internal Services\Fp\Bc15008Fp |

SUMMARY

The purpose of this report is to seek Council's approval for carry-forward funding adjustments to the 2015 Approved Capital Budget of \$352.028 million. The recommended carry forward funding adjustments are in compliance with the City's Carryforward Policy and have no impact on the City's debt levels.

Report also provides a list of 111 completed capital projects to be closed including the total number and value of projects under and over expenditures. \$378.591 million in projects are ready to be closed and have been completed under budget, resulting in savings of \$35.896 million that will be returned to their original funding sources, including a savings of \$13.827 million in debt funding.

In addition, this report recommends that Council authorize the transfer of \$7.0 million gross and net from the 2015 Approved Budget for insurance and claims from Non-Program account to City Programs and Agencies pursuant to the Insurance Allocation Algorithm adopted by Council and re-allocation of budget savings resulted from the declining fuel prices from Fleet Services to respective Divisions.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. Council receive for information Appendix 1 which lists 111 completed capital projects/sub-projects to be closed resulting in a total combined project budget savings of \$35.896 million.
2. Council approve additional carry forward funding of \$352.028 million from unspent capital projects funding as detailed in Appendix 2, in order to continue work on previously approved capital projects, and that the 2015 Approved Capital Budget for respective City programs and Agencies be adjusted accordingly with no incremental net impact on debt.
3. Council approve the re-allocation of \$7 million gross and net from the 2015 Approved Non-Program Expenditure Budget to City Programs and Agencies to fund the 2015 costs for insurance and claims.
4. Council approve the re-allocation of \$1.244 million gross and net from 2015 Fleet Services Approved Operating Budget to other City Division to transfer savings realized from lower fuel prices.
5. Council authorize and direct the appropriate City Officials to take the necessary action to give effect thereto.

Financial Impact

Fully completed capital projects to be closed at year-end have a total under spending of \$35.896 million. Closure of these projects will avoid debt borrowing in the amount of \$13.827 million, reduce \$6.708 million in reserve and reserve funding and save \$15.361 million to other funding sources such as third party funding, federal subsidies, provincial grants and donations, etc.

Approval of the additional carry forward funding of \$352.028 million recommended in this report will increase the total 2014 carry forward funding from \$1.065 billion to \$1.417 billion with no incremental net impact on approved debt funding requirement. Recommended carry forward funding adjustments total \$320.315 million for 2014 approved capital projects and \$31.713 million for 2013 and prior year capital projects. 2013 and prior years recommended carry forward adjustments funded by debt were offset by 2015 approved cash flow deferrals that have an equivalent debt value in order to not impact approved debt funding levels. The total 2014 carry forward funding of \$1.417 billion represents 33.4% of the 2014 Approved Capital Budget. Recommended incremental carry forward funding will increase the 2015 Approved Capital Budget from \$3.890 billion to \$4.242 billion.

As part of the 2015 Approved Operating Budget, incremental increases to the City's insurance and claims expenditures since 2013 were budgeted centrally in the Non-Program Expenditure Budget. This report seeks Council approval to reallocate \$7.0 million gross and net from the 2015 Approved Non-Program Expenditure Budget for insurance and claims to City Programs

and Agencies pursuant to the Insurance Allocation Algorithm adopted by Council resulting in a zero net impact to the total Tax Levy Budget.

ISSUE BACKGROUND

This report is provided pursuant to good business practices and budgetary control. As part of the City's accountability framework, 2014 carry forward funding requests and requests for project closure are submitted to Committee and Council to ensure appropriate cash flow spending authorities are in place, specifically to provide ongoing transparency and accountability on all capital project activities.

COMMENTS

With the approval of the 2015 Capital Budget by Council in March it is critical to ensure appropriate cash flow authorities are now in place to enable City Programs and Agencies to continue capital works on previously approved projects. With the 2014 fiscal year closed, City Programs and Agencies can now finalize carry forward funding to 2015 Approved Capital budget and closure of projects.

Capital

Closed Capital Projects

Over the last two years, Financial Planning Division (FPD) 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 redirect and return funding to their original source. This then frees scarce funds for future capital projects and avoids the issuance of debt that may not be 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 1, at the end of the fourth quarter, 111 capital projects are fully completed and will be closed. These fully completed projects have total approved project budget

of \$378.591 billion and actual spending of \$342.694 billion, representing a total saving of \$35.896 million, with \$13.827 million funded by debt, \$6.708 million funded by various reserve and reserve funds and \$15.361 million from other funding sources.

The number and value of the fully completed and closed projects are mainly due to the following programs:

Fleet Services fully completed 40 projects with total project cost of \$91.6 million, actual expenditure of \$85.7 million and savings of \$5.8 million.

Transportation Services fully completed 17 projects with total project cost of \$182.9 million, actual expenditure of \$168.3 million and savings of \$14.7 million.

Table 1 outlines project costs, actual expenditures and savings realised from closure of completed Capital projects during 2014.

Table 1

| Tax Supported Programs | Closed Projects Q1 | Closed Projects Q2 | Closed Projects Q3 | Closed Projects Q4 | Total 2014 |
|-------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------|
| # of Closed Projects | 152 | 1 | 4 | 97 | 254.0 |
| Project Budget (\$M) | 350.9 | 0.1 | 17.0 | 182.8 | 550.8 |
| Actual Expenditure (\$M) | 335.9 | | 17.0 | 162.0 | 514.9 |
| Savings (\$M) | 15.0 | 0.1 | | 20.8 | 36.0 |
| 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 | Total 2014 |
|--------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------|
| # of Closed Projects | 59.0 | | | 14.0 | 73.0 |
| Project Budget (\$M) | 29.7 | | | 12.8 | 42.5 |
| Actual Expenditure (\$M) | 29.0 | | | 12.5 | 41.5 |
| Savings (\$M) | 0.7 | | | 0.3 | 1.0 |

| All City Programs/Agencies | Closed Projects Q1 | Closed Projects Q2 | Closed Projects Q3 | Closed Projects Q4 | Total 2014 |
|-----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------|
| # of Closed Projects | 211.0 | 1.0 | 4.0 | 111.0 | 327.0 |
| Project Budget (\$M) | 380.6 | 0.1 | 17.0 | 195.6 | 593.3 |
| Actual Expenditure (\$M) | 364.9 | | 17.0 | 174.5 | 556.3 |
| Savings (\$M) | 15.7 | 0.1 | | 21.2 | 37.0 |
| Savings in Debt Funding (\$M) | 11.7 | | | 14.3 | 24.7 |

In addition to fully completed projects, 316 capital sub-projects are completed within 81 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 cost of

\$608.832 million and total life-to-date spending of \$371.971 million. The remaining Council approved funding available for outstanding phases or sub-projects is \$236.861 million.

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.

As shown in Table 2, during last 5 years, City Programs and Agencies completed capital work on 1,623 capital projects that have had a combined total project cost of \$3.789 billion and actual expenditure of \$3.423 billion, coming under budget by \$364 million, of which \$140.7 million avoided debt funding.

Table 2

| | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| # of Projects Closed: | 271 | 409 | 383 | 233 | 327 | 1,623 |
| Project Budgets (\$M) | 413 | 731 | 495 | 1,557 | 593 | 3,789 |
| Actual Capital Expenditure (\$M) | 399 | 671 | 423 | 1,374 | 556 | 3,423 |
| Savings (\$M) | 14 | 114 | 16 | 183 | 37 | 364 |
| Savings in Debt Funding (\$M) | | 5 | 8 | 103 | 24.7 | 141 |

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.

Due to the timing of the budget process, some Programs and Agencies were not able to submit or precisely calculate the carry-forward funding needed for the completion of 2014 and prior years capital projects before approval of the 2015 Capital Budget. With the 2014 year-end closing process almost completed, Programs and Agencies are now able to finalize the carry forward funding required to complete prior year projects. It is necessary that these adjustments now be made to provide necessary cash flow spending authorities to continue capital project delivery in 2015.

In accordance with the City's Carry Forward Policy, approval is being sought to carry forward funding for uncompleted 2014 projects with no incremental impact on debt. However, carry forward funding requests that are funded by debt for cash flow approved in 2013 and prior years must be offset by 2015 approved cash flow deferrals that have an equivalent debt value in order to not impact approved debt funding levels.

Table 3 below shows City Programs and Agencies total requested 2014 carry forward funding.

Table 3

| (Millions) | Tax Supported | Rate Supported | Total Recommended Carry Forward Funding |
|------------------------------------|----------------------|-----------------------|--|
| 2015 Council Approved | 981 | 84 | 1,065 |
| Additional CF Adj. | 324 | 27 | 352 |
| Total Carry Forward Request | 1,305 | 111 | 1,417 |

Approval of these incremental carry forward funding adjustments will increase the 2015 Tax and Rate Approved Capital Budget from \$3.890 billion to \$4.242 billion. Total carry forward funding of \$1.417 billion represents 33.4% in unspent funding of the 2014 Approved Capital Budget.

It is noted that reductions included in Appendix 2 are to adjust for overestimated carry forward funding included in the 2015 Council Approved Capital Budget.

Operating

Allocation of Insurance Funding in the 2015 Approved Non-Program Expenditure Budget

Divisional insurance budgets have remained unchanged since 2013 totaling \$45.459 million. Incremental increases to the City's insurance and claims expenditures have been budgeted corporately in the Non-Program Expenditure Budget since 2013. For 2015, the Approved Non-Program Expenditure Budget includes \$7.0 million to fund insurance and claims cost. This report recommends that Council authorize the transfer of \$7.0 million gross and net from the 2015 Approved Non-Program Expenditure Budget for insurance and claims to City Programs and Agencies pursuant to the Insurance Allocation Algorithm adopted by Council as outlined in Appendix 3.

Savings from Lower Fuel Prices

The 2015 Approved Operating Budget includes a reduction of \$1.700 million from the 2014 Approved Operating Budget as a result of the decline in fuel prices. The savings only pertain to fuel dispensed by non-rate programs at fuel stations managed and operated by Fleet Services, and are currently reflected in the Fleet Services' 2015 Approved Operating Budget.

The adjustments in attached Appendix 4 reflect the re-allocate of the budget savings to the respective City Programs' 2015 Operating Budget. A total of \$1.7 million will be reallocated to the City Programs.

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 - Capital Projects to be Closed
Appendix 2 - 2014 Carry Forward Funding Adjustments
Appendix 3 - 2015 Re-allocation of Insurance Funding
Appendix 4 - 2015 Re-allocation of Fuel Savings