



Capital Variance Report for the Six-Month Period Ended June 30, 2016

Date: August 31, 2016

To: Budget Committee and Executive Committee

From: Deputy City Manager & Chief Financial Officer

Wards: All

SUMMARY

The purpose of this report is to provide City Council with the City of Toronto Capital Variance for the six month period ended June 30, 2016, as well as projected actual expenditures to December 31, 2016. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2016 Approved Capital Budget.

The report also identifies 50 completed capital projects with a combined budget of \$362.110 million that are ready to be closed and have been completed under budget, resulting in savings of \$51.442 million that will be returned to their original funding sources, including a savings of \$27.759 million in debt funding, \$6.030 million in reserve funding, \$6.743 million in CFC funding, \$5.518 million in recoverable debt and \$5.391 million in other funding (third party funding, donations etc.).

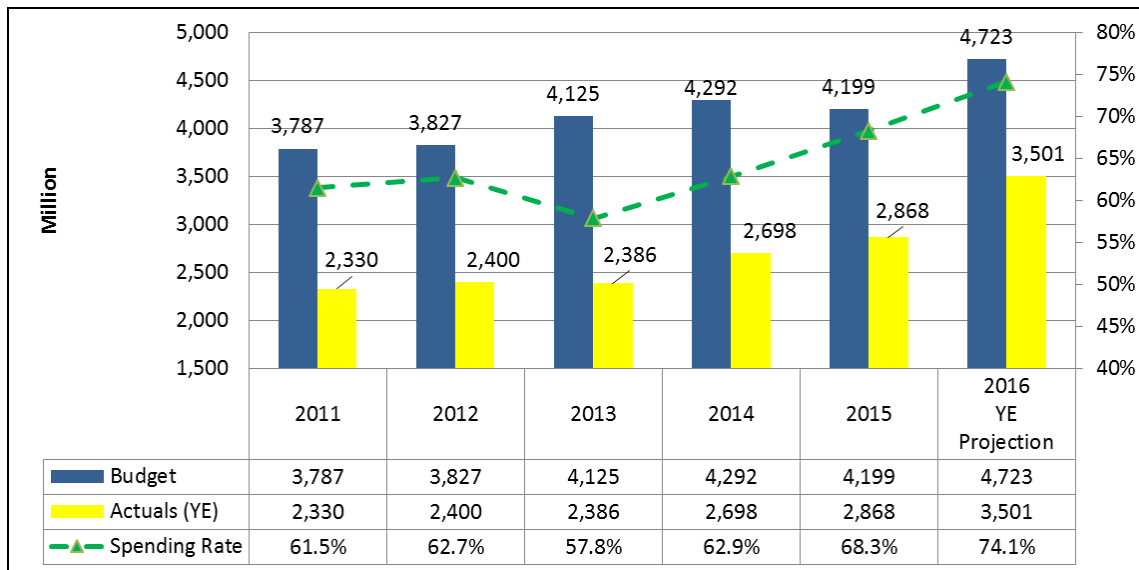
Table 1: Six Months and YE Projected Spending Rate

	2016 Approved Budget	Actual Expenditures - January 1 to June 30, 2016		Projected Actual Expenditure at Year- End	
		\$000s	%	\$000s	%
Tax Supported	3,688,648	768,574	20.8%	2,659,199	72.1%
Rate Supported Programs:	1,034,364	199,449	19.3%	841,745	81.4%
TOTAL	4,723,012	967,023	20.5%	3,500,944	74.1%

The spending pattern for the first six months of 2016 is consistent with prior years as capital activity in the first half of the year is typically more preparatory. As detailed by City Program and Agency in Appendix 1, actual expenditures to year-end are expected to reach \$3.501 billion or 74.1% of the total 2016 Approved Capital Budget. 19 of 33

City Programs and Agencies are projecting spending in excess of 70% by year-end: Tax Supported Programs project a spending rate of 72.1% to year-end; while Rate Supported Programs project year-end spending rate of 81.4%.

Figure 1: 2011 – 2016 Capital Budget Spend Rate



RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council receive for information Appendix 2 which lists 50 completed capital projects/sub-projects to be closed, resulting in a total combined project budget savings of \$51.442 million.
2. City Council approve in-year budget adjustments to the 2016-2024 Approved Capital Budget and Plan detailed in Appendix 3 with no incremental impact on debt funding.

FINANCIAL IMPACT

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the three months ended March 31, 2016 as well as projected spending to year-end.

Table 2: Six Months and Year-End Projected Spending by Cluster

	2016 Approved Budget	Actual Expenditures - January 1 to June 30, 2016		Projected Actual Expenditure at Year-End	
		\$000s	%	\$000s	% of Plan
Tax Supported Programs:					
Citizen Centred Services - "A"	364,329	52,222	14.3%	227,622	62.5%
Citizen Centred Services - "B"	517,424	63,163	12.2%	349,089	67.5%
Internal Services	477,831	93,514	19.7%	317,183	66.4%
Other City Programs	22,314	1,171	5.2%	16,817	75.4%
Sub Total City Operations	1,381,898	209,711	15.3%	910,711	65.9%
Agencies	2,306,750	558,763	24.2%	1,748,489	75.8%
Sub Total - Tax Supported	3,688,648	768,473	20.9%	2,659,199	72.1%
Rate Supported Programs:					
Solid Waste Management	96,669	10,826	11.2%	72,774	75.4%
Toronto Parking Authority	86,043	12,452	14.5%	73,025	84.9%
Toronto Water	851,652	176,171	20.7%	695,946	81.7%
Sub Total Rate Supported	1,034,364	199,449	19.3%	841,745	81.4%
Total	4,723,012	967,923	20.5%	3,500,944	74.1%

Total expenditures for Tax and Rate Supported Programs and Agencies for the first quarter of 2016 are \$967.923 million representing 20.5% of their combined 2016 Approved Capital Budget. Actual spending at the end of the six month period is in line with previous years, since capital activity is more preparatory in the first half of the year. Projected expenditures are anticipated to reach \$3.501 billion or 74.1% by year-end.

Appendix 1 summarize second quarter spending and year-end projected spending rates by City Program and Agency. Appendix 3 details the in-year budget adjustments to the 2016 Approved Capital Budget. Appendix 5 provides dashboards for each City Program and Agency for the six months ended June 30, 2016 as well as projections to year-end.

Dashboard Approach

The dashboards for City Programs and Agencies, set out in Appendix 5, provide greater transparency and insight into the financial performance of all City Programs and Agencies, greater accountability with better performance measurement and monitoring to ensure Programs and Agencies are meeting targets, and improved information to enable Councillors to make informed decisions based on easy to understand results. The dashboards include "alert" indicators with Green, Yellow or Red colours that measure the percentage of capital spending with the criteria based on the following net budget variances:

Green – 70% or more of Budget Spent

Yellow – Between 50% and 70% of Budget Spent

Red – Less than 50% of Budget Spent or more than 100% of Budget Spent

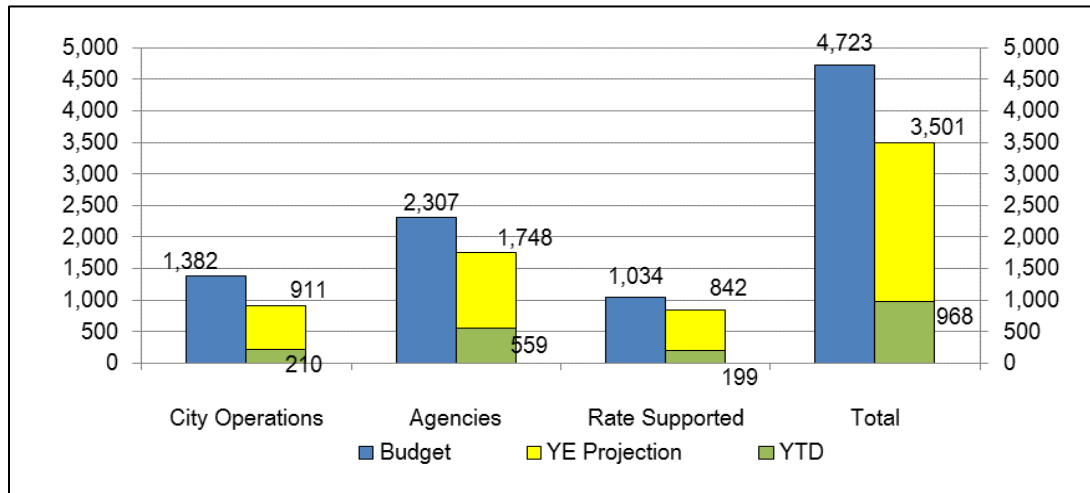
DECISION HISTORY

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

COMMENTS

At its meeting of December 9-10 2015, Council approved a 2016 Rate-Supported Capital Budget of \$942.295 million and on February 17, 2016 Council Approved a 2016 Tax Supported Capital Budget of \$2.241 billion. The 2016 Rate-Supported Capital Budget comprise of \$801.083 million for Toronto Water, \$52.045 million for Toronto Parking Authority and \$89.167 million for Solid Waste Management Services. Including additional 2016 carry forward funding of \$ 296.838 million and Council approved in-year adjustments for all City Tax and Rate Programs and Agencies, the 2016 Adjusted Capital Budget is \$4.723 billion. Chart 2 below summarizes year-to-date and projected spending to year-end.

Figure 2: 2016 Capital budget, YTD and YE Projection



The City's capital program encompasses 5 categories of capital work: Health & Safety projects (HS); Legislated projects (LE); State of Good Repair projects (SOGR); Service Improvement projects (SI); and Growth Related projects (GR). Charts 3 and 4 below outline the 2016 Approved Budget and number of projects in each category.

Figure 3: 2016 Approved Budget and Spending by Project Category (\$4.723B)

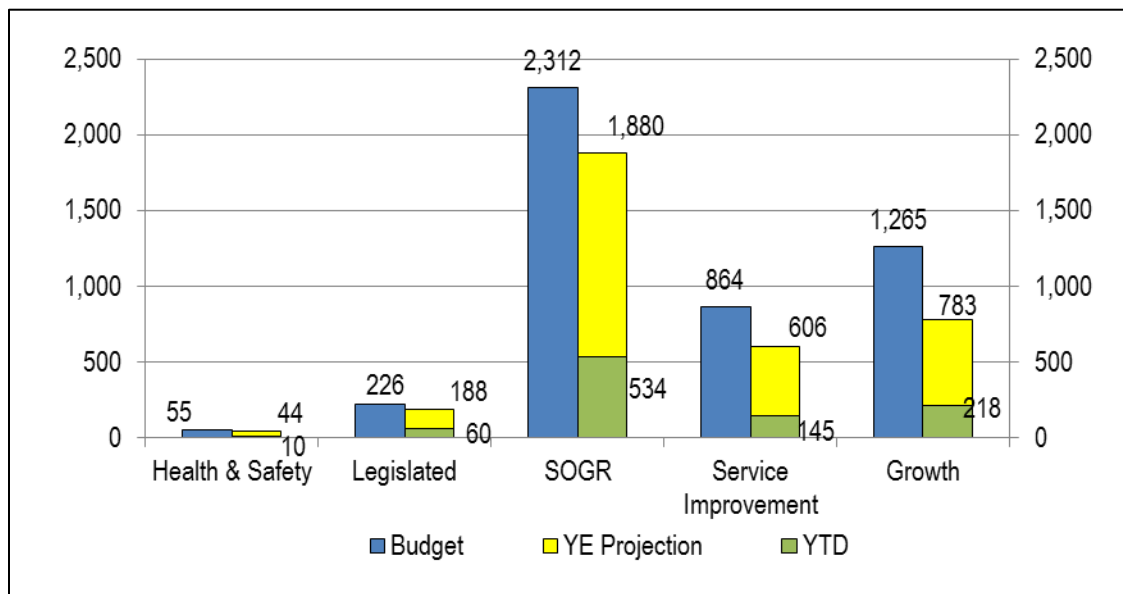
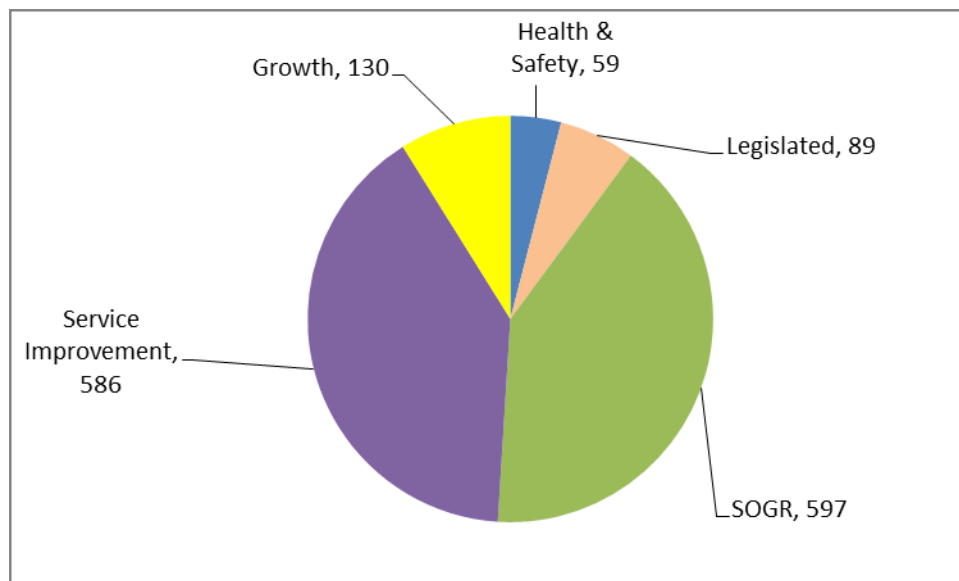


Figure 4: 2016 Active Projects (1,461)



As illustrated in Chart 3 and Chart 4 above, 597 or 40.9% of the City's active capital projects are State of Good Repair (SOGR), which represent \$2.312 billion of the 2016 Approved Capital Budget. It is estimated that by year-end, about \$1.880 billion or 81.34% of the capital funding allocated to SOGR projects will be spent. In addition, \$605.926 million in approved Service Improvement projects and \$782.916 million for Growth Related projects will be spent by year-end representing a spending rate of 70.1% and 61.9%, respectively. Spending for Health & Safety (\$43.565 million) and Legislated projects (\$188.112 million) expected to be completed by year-end is projected to be at 78.6% and 83.1%, respectively.

A detailed explanation on the progress of the capital work for Major Projects can be found in Appendix 4 of this report.

A detailed explanation on the progress being made on approved capital projects for each City Program and Agency can be found in Appendix 5 of this report.

Closed Capital Projects

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". Appendix 2 details completed projects for various City Programs and Agencies that will be closed.

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 generally not be issued.

Closing of completed capital projects in a timely manner identifies savings and allows staff to return funding to its original source. This then frees scarce funds for re-use in future budgets. It is also noted that the closure of projects / subprojects enable staff to better focus its attention on active projects, and supports better, more efficient and accurate variance reporting. Accounting Services staff will ensure that all expenditures for the identified capital projects/sub-projects are fully funded prior to closure.

As detailed in Appendix 2, 50 capital projects are being closed that have a total budget of \$362.110 million and actual expenditures of \$310.668 million. This results in savings of \$51.442 million that will be returned to their original funding sources, including \$27.759 million in debt funding, \$6.030 million in reserve/reserve funds funding, \$5.518 million in recoverable debt, \$6.743 million in CFC funding and \$5.391 million in other funding (including third party funding and donations).

Table 3: Summary of 2016 Closed Projects

Tax Supported Programs	Closed Projects Q1	Closed Projects Q2	Total 2016
# of Closed Projects	20	28	48.0
Project Budget (\$M)	83.1	318.3	401.4
Actual Expenditure (\$M)	49.9	277.0	326.9
Savings (\$M)	33.2	41.3	74.5
Savings in Debt Funding (\$M)	0.0	27.8	27.8
Rate Supported Programs	Closed Projects Q1	Closed Projects Q2	Total 2015
# of Closed Projects		22.0	22.0
Project Budget (\$M)		43.9	43.9
Actual Expenditure (\$M)		33.7	33.7
Savings (\$M)		10.2	10.2
Savings in Debt Funding			0.0
All City Programs/Agencies	Closed Projects Q1	Closed Projects Q2	Total 2016
# of Closed Projects	20.0	50.0	70.0
Project Budget (\$M)	83.1	362.2	445.3
Actual Expenditure (\$M)	49.9	310.7	360.6
Savings (\$M)	33.2	51.5	84.7
Savings in Debt Funding (\$M)	0.0	27.8	27.8

In addition to the above fully completed projects, 53 capital sub-projects are completed within 23 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 \$557.558 million and total life-to-date spending of \$422.287 million. The remaining Council approved funding available for outstanding phases or sub-projects is \$135.270 million.

In-Year Budget Adjustments

In-year budget and technical adjustments to the 2016 - 2024 Approved Capital Budget and Plan require approval by Council.

Economic Development and Culture (EDC) has requested amendments to its 2016 Approved Capital Budget which will allow Little Italy BIA's approved capital project's funding model to be adjusted to an Equal Share Funding (50/50) option, cancel Trinity Bellwoods BIA's capital project for 2016 and transfer the unspent funds to the Financial District BIA, and increase the College Promenade BIA's contribution to its streetscape improvement project as a result of increased cost estimates with no impact to debt.

An in-year budget adjustment is also requested to transfer \$0.685 million from the TTC to EDC to fund a Cultural Infrastructure Development project. The transfer will change the Public Art responsibility of the Leslie Barns site to EDC, who will manage the project.

Park, Forestry & Recreation (PF&R) requires a technical in-year adjustment to revise the funding sources for the *Ward 38 Park Improvements* project. The Ward 38 Park Improvements project was added to the 2016 Parks, Forestry and Recreation Capital Budget at the February 17, 2016 City Council meeting through a member motion. City council adopted the redirection of \$1.200 million in funds from the 2016 Sports Field Program project in order to create a new Ward 38 Park Improvements project. Of the \$1.200 million in funds to be redirected, \$0.965 million was funded from development charges (XR2114) and \$0.235 million was funded from reserve funds (City Wide Parkland Development Cash-in-lieu XR2211). This adjustment seeks to revise the funding sources for this project by reducing development charges (XR2114) from \$0.965 million to \$0.810 million, and increasing reserve funds from \$0.235 million to \$0.390 million. The additional \$0.155 million in reserve contributions to be funded from \$0.065 million from City Wide Parkland Development Cash-in-lieu XR2211 and \$0.090 million from East District Parkland Development Cash-in-lieu (XR2205). This adjustment ensures that the appropriate amount of development charges, consistent with the Development Charge By-law, and appropriate reserve funds are allocated.

Toronto Paramedic Services (TPS) has requested a reallocation of \$0.500 million from the *Defibrillator Replacement Purchases* project (CAM045-02) that is expected to be under budget and on time to *Medical Equipment Replacement* project to accommodate the purchase of new AEDs that do not require service agreements.

Facilities, Real Estate, Energy and Environment (FREEE) has requested the transfer of \$2.8 million from FREEE's capital project to **Transportation Services** relating to the *Westwood Site / Six Points Interchange* capital initiative to execute the Offer to Connect (OTC) agreement with Toronto Hydro which will allow for the installation of expanded hydro infrastructure at the site.

A plan to reconfigure the *Six Points Interchange* road network has been established and funding was approved in the 2016 – 2025 Capital Budget for Transportation Services, with a total project cost of \$77.297 million. Prior to authorizing the installation of the expanded hydro infrastructure, Toronto Hydro requires a deposit to secure the owner's commitment to make use of the expanded infrastructure in the future. Toronto Hydro has presented an "Offer to Connect" (OTC) agreement to which the City of Toronto will enter into, with the City's share of the cost at \$4.6 million. Funding availability for the OTC within Transportation's Capital Budget is \$1.8 million. To cover the remaining \$2.8 million, FREEE has identified the available funding in a project account earmarked for the Westwood Site Redevelopment (adjacent to the Six Points Interchange site) funded through the Land Acquisition Reserve Fund (LARF) (XR1012). It is agreed between both Divisions that these funds will be transferred to Transportation services and it will be increasing accordingly capital project to ensure sufficient funding is available within the Six Points project to enter into the OTC with Toronto Hydro. The impact to FREEE's 2016-2025 Capital Budget and Plan is a reduction of \$2.8 million in 2016 to gross and net expenditures, with a corresponding increase to Transportation's 2016-2025 Capital Budget and Plan.

This report recommends in-year budget adjustments for **Fleet Services** to reallocate \$0.605 million in funding in order to accommodate the contract awards for 7 cargo vans in Engineering & Construction Services that have passed their useful life. The funding is available from residual amounts of completed projects, cancelled projects for *Green Fleet Plan* and delay in the *Fleet Management & Fuel System Integration*. There is no net impact to Fleet Services' 2016 Capital Budget resulting from this adjustment.

Toronto Public Library has requested in-year budget adjustments to accelerate funding from 2017 into 2016 for the *Multi-Branch Minor Renovation Program* of \$1.050M and the *Technology Asset Management Program* of \$0.500M, and the *Wychwood Renovation* \$0.100M as they are ahead of schedule. These have been offset by a deferral of cash flow for the *North York Central Library* \$1.5M, *Bayview* \$0.050M and *St Clair/Silverthorn* \$0.100M as these projects are experiencing delays relating to site plans or complexities. The acceleration and deferral of funding do not impact approved debt levels. The *Multi Branch 2016-2018 Project* was funded in error for the portion of the Canada 150 Infrastructure Program. Funding from the *Multi Branch 2016-2018 Project* \$0.102M has been reallocated to the *Agincourt Project* to properly reflect the Canada 150 Federal Funding. Funding of \$1.125M is being deferred for the *Agincourt Library Project*, funding is related to Section 37 and the funds have not been received. Funding for the *Wychwood Project* has been deferred from 2016 to 2018 in order to align with the Parks, Forestry and Recreation budget.

CONTACT

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SIGNATURE

Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Appendix 1 - 2016 Consolidated Capital Variance Report for the Six Months Ended June 30, 2016

Appendix 2 - Capital Projects to be Closed

Appendix 3 - In-Year Adjustments for the Six Months Ended June 30, 2016

Appendix 4 - Major Capital Projects

Appendix 5 - Capital Dashboard for Programs/Agencies