

Capital Variance Report for the Nine-Month Period Ended September 30, 2016

Date: November 16, 2016
To: Budget Committee, 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 nine month period ended September 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.

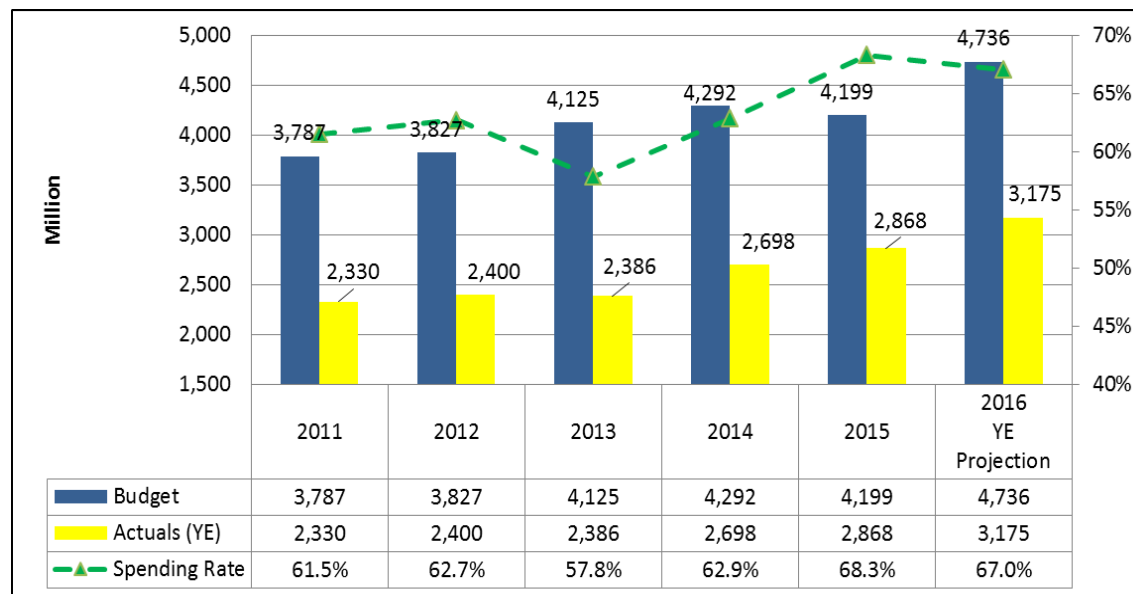
The report also identifies 4 completed capital projects with a combined budget of \$27.626 million that are ready to be closed and have been completed under budget, resulting in savings of \$0.096 million in reserve funding that will be returned to their original funding sources.

Table 1: Nine Months and Year-End Projected Spending Rate

	2016 Approved Budget	Actual Expenditures - January 1 to September 30, 2016		Projected Actual Expenditures at Year-End	
		\$000s	%	\$000s	%
Tax Supported	3,701,705	1,186,068	32.0%	2,397,279	64.8%
Rate Supported Programs:	1,034,364	385,548	37.3%	777,992	75.2%
TOTAL	4,736,068	1,571,616	33.2%	3,175,270	67.0%

The spending pattern for the first nine months of 2016 is consistent with prior years. As detailed by City Program and Agency in Appendix 1, actual expenditures to year-end are expected to reach \$3.175 billion or 67% of the total 2016 Approved Capital Budget. 13 of 33 City Programs and Agencies are projecting spending in excess of 70% by year-end: Tax Supported Programs project a spending rate of 64.8% to year-end; while Rate Supported Programs project year-end spending rate of 75.2%.

Figure 1: 2011 - 2016 Capital Spending Rate



As shown in the Chart 1 above, City's capital spending at year-end is expected to reach \$3.175 billion or 67% of 2016 Council Approved Capital Budget. Over the previous 5 years both the approved capital budget (including carry forward funding) and the actual spending have been trending upward at a relatively steady rate. However, the City's spending rate increased to 68.3% and projected 67% in 2015 and 2016 respectively, as a result of increased actual spending in some major capital projects. These include Toronto Transit Commission increased spending from 57.5% in year 2014 to projected spending of over 67% in 2016; Facilities Management increased spending from 49.7% in 2014 to projected spending of 54.2% in 2016 and Park, Forestry and Recreation increased spending from 50.5% in 2014 to projected 53.4% in 2016.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council receive for information the list of 4 completed capital projects/sub-projects to be closed as detailed in Appendix 2, that results in a total combined project budget savings of \$0.096 million.
2. City Council approve in-year budget adjustments to the 2016-2025 Approved Capital Budget and Plan detailed in Appendix 3 with no incremental impact on debt funding.
3. City Council request the Toronto Transit Commission Board to identify either scope reductions or reallocations from other projects to ensure cash flow for Toronto Rocket Yard and Storage Track Accommodation; Leslie Barns Streetcar Maintenance and Storage Facility; and Automatic Train Control (ATC) Resignalling Project do not exceed the 2016 Approved Capital Budget and report back in January of 2017 with any changes that require City Council authority.

FINANCIAL IMPACT

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the nine months ended September 30, 2016 as well as projected spending to year-end.

Table 2: Nine Months Variance and Projection to Year-End

	2016 Approved Budget	Actual Expenditures - January 1 to September 30, 2016		Projected Actual Expenditures at Year- End	
		\$000s	%	\$000s	%
Tax Supported Programs:					
Citizen Centred Services - "A"	367,016	106,195	28.9%	213,378	58.1%
Citizen Centred Services - "B"	520,551	136,097	26.1%	334,328	64.2%
Internal Services	477,831	159,557	33.4%	280,647	58.7%
Other City Programs	25,314	3,411	13.5%	16,072	63.1%
Sub Total City Operations	1,390,994	405,260	29.1%	844,279	60.7%
Agencies	2,310,994	780,808	33.8%	1,552,733	67.2%
Sub Total - Tax Supported	3,701,705	1,186,068	32.0%	2,397,279	64.8%
Rate Supported Programs:					
Solid Waste Management	96,669	26,125	27.0%	66,038	68.3%
Toronto Parking Authority	86,043	17,875	20.8%	55,258	64.2%
Toronto Water	851,652	341,548	40.1%	656,696	77.1%
Sub Total Rate Supported	1,034,364	385,548	37.3%	777,992	75.2%
Total	4,736,068	1,571,616	33.2%	3,175,270	67.0%

Total expenditures for Tax and Rate Supported Programs and Agencies for the third quarter of 2016 are \$1.572 billion representing 33.2% of their combined 2016 Approved Capital Budget. Actual spending at the end of the nine month period is in line with previous years. Projected expenditures are anticipated to reach \$3.175 billion or 67% by year-end.

Appendix 1 summarizes third 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 nine months ended September 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 comprises 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 \$4.736 billion.

Figure 2: 2016 Capital Budget, Year-to-Date and Year-End Projection

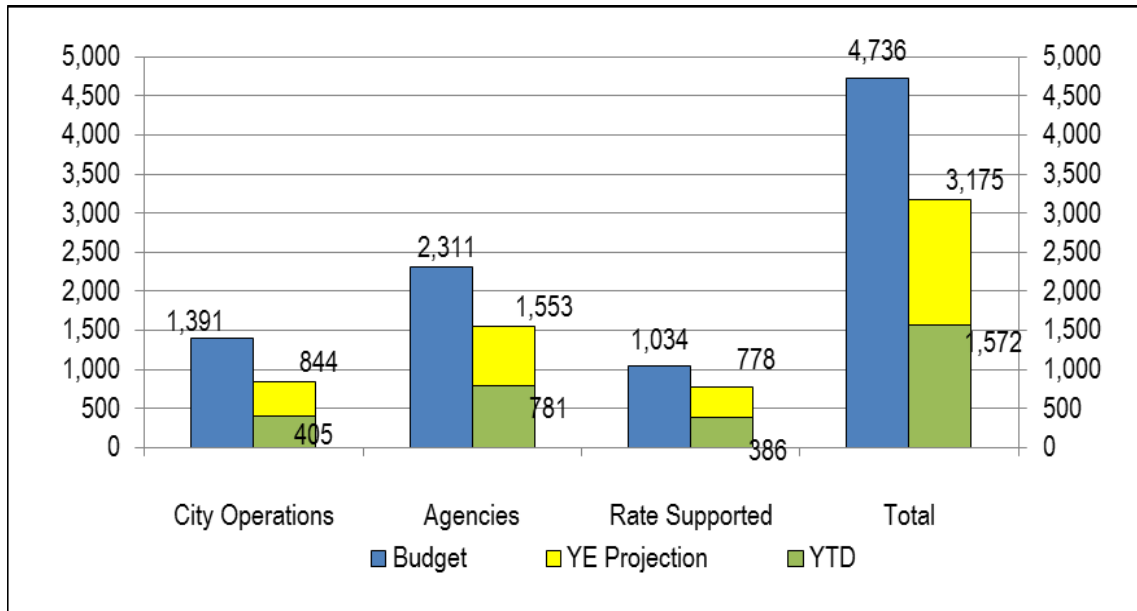
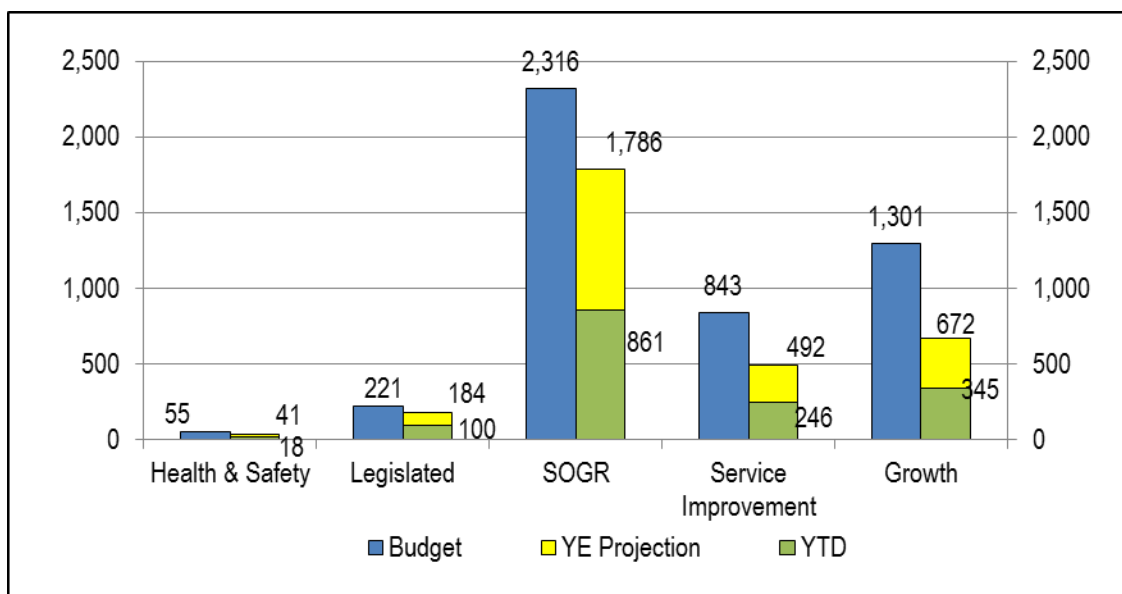


Chart 2 above summarizes year-to-date and projected spending to year-end. The City's capital work tends to accelerate in the latter part of the year. This is evident in the increased spending projections to 2016 year-end, which indicate total spending of \$3.175 billion or 67% of the 2016 Approved Capital Budget.

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).

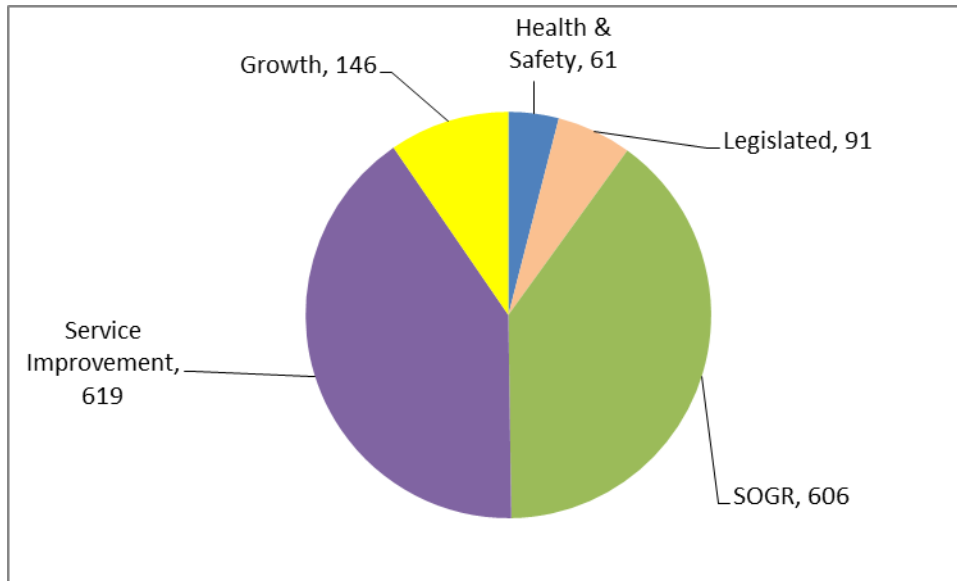
Charts 3 below outline the 2016 Approved Budget, year-to-date spending and year-end projection for each project category.

Figure 3: 2016 Approved Budget and Spending by Project Category (\$4.736 B)



State of Good Repair (SOGR) accounts for \$2.316 billion of the City's 2016 Approved Capital Budget. It is estimated that by year-end, about \$1.786 billion or 77.12% of the capital funding allocated to SOGR projects will be spent. In addition, \$492.456 million in approved Service Improvement projects and \$671.940 million for Growth Related projects will be spent by year-end representing a spending rate of 58.43% and 51.65%, respectively. Spending for Health & Safety (\$40.551 million) and Legislated projects (\$183.798 million) expected to be completed by year-end is projected to be at 7.82% and 83.09%, respectively.

Figure 4: 2016 Active Projects (1,523)



As illustrated in Chart 4 above, total number of active capital projects at the end of nine months period was 1,523. 606 or 39.79% of the City's active capital projects are State of Good Repair (SOGR) projects. In addition, 619 projects (representing 40.64%) are approved Service Improvement projects and 146 projects or 9.49% are Growth Related projects. City also has 91 Legislated projects (5.98%) and 61 capital project categorized as Health & Safety projects (4.01%).

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". The City reports quarterly on the disposition of closed projects. Appendix 2 details completed projects for various City Programs and Agencies that will be closed in the third quarter of 2016.

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, 4 capital projects are being closed that have a total budget of \$27.626 million and actual expenditures of \$27.530 million. This results in savings of \$0.096 million in reserve funding that will be returned to their original funding sources.

Table 3: 2016 Closed Projects

Tax Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Total 2016
# of Closed Projects	20	28	4	52.0
Project Budget (\$M)	83.1	318.3	27.6	429.0
Actual Expenditure (\$M)	49.9	277.0	27.5	354.4
Savings (\$M)	33.2	41.3	0.1	74.6
Savings in Debt Funding (\$M)	0.0	27.8		27.8
Rate Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	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	Closed Projects Q3	Total 2016
# of Closed Projects	20.0	50.0	4.0	74.0
Project Budget (\$M)	83.1	362.2	27.6	472.9
Actual Expenditure (\$M)	49.9	310.7	27.5	388.1
Savings (\$M)	33.2	51.5	0.1	84.8
Savings in Debt Funding (\$M)	0.0	27.8	0.0	27.8

In-Year Budget Adjustments

In-year budget and technical adjustments to the 2016 - 2025 Approved Capital Budget and Plan require approval by Council.

Economic Development and Culture (EDC) has requested in-year adjustments to its 2016 Approved Capital Budget in the amount of \$0.086 million gross and \$0 net with no impact to debt. The contractor who managed three streetscape improvement projects on behalf of Lakeshore Village, Parkdale Village, and Kensington Market Business Improvement Areas declared bankruptcy which led to increased costs to finish the project in 2016 for the amount of \$0.057 million and the funds will be recovered through the bonding company. In addition, Little Italy Business Improvement Area received \$0.029 million from the developer for 491 College Street through the Notice of Approval Conditions (NOAC) under the Site Plan Control which the funds will be spent for the pedestrian lighting and streetscape projects.

Shelter, Support and Housing Administration (SSHA) is requesting an in-year budget adjustment to release the earlier earmarked Section 37 funds (XR3026) and to change the funding source for the acquisition of the properties at 63 & 65 Homewood Avenue from (XR3026) to the Capital Revolving Reserve Fund (XR1058). The project was part of a Section 37 agreement with the developer working on a redevelopment project at 175 Dundas Street East which was secured via a settlement prior to an OMB hearing. The agreement required the developer to purchase the properties and turn

them over to the City for an affordable housing development opportunity. Approval of this settlement was initially denied by the OMB prompting an amendment of the funding source to Section 37 (XR3026). Following subsequent approval of the settlement by the OMB, the acquisition of the properties will now proceed as initially intended.

A technical adjustment is required for **311 Toronto** to align total project cost to Council Approved planned cash flows for the *Future Integration and Strategy Initiative* project, which was approved by Council through the 2014 and 2016 Capital Budgets. There is no impact to the 2016 Council Approved Capital Budget and Plan as cash flows are correctly stated and fully funded, and do not require any adjustment. The total project cost will be increased by \$1.946 million to \$9.572 million for this capital project.

An in-year budget adjustment is required to **Fleet Services'** 2016 Approved Capital Budget and Plan to reallocate funding of \$4.700 million from underspent projects caused by the delay in delivery of Solid Waste vehicle to projects where funding is needed to accommodate contract awards for vehicles past their useful life (PF&R, Toronto Paramedic Services). There is no incremental impact on total 2016 Approved Budget for Fleet Services and this reallocation is offset by funds transfer from PF&R and TPS accounts to Solid Waste Fleet reserve in 2017.

Sony Centre for the Performing Arts (Sony Centre) has requested a technical adjustment to its 2016 Approved Capital Budget in the amount of \$0.050 million fully funded by a Section 37 community benefit. Council adopted motion MM20.30 on July 12, 2016 which erroneously approved a budget adjustment to Sony Centre's 2016 Operating Budget which should have been an adjustment to the 2016 Capital Budget.

Toronto Public Health (TPH) has requested an in-year budget adjustment of \$0.57 million to its 2016 Approved Capital Budget that includes a commitment of \$0.344 million in 2017 to accommodate additional funding from Ministry of Health and Long Term Care for the ongoing and planned operations, upgrades, deployment and adoption activities for components of the *Panorama System*.

Toronto Public Library requires in-year budget adjustments to accelerate funding from 2017 into 2016 for the *Albion Library project* of \$0.915 million and *Wychwood Library project* of \$0.150 million as they are ahead of schedule. These have been offset by a deferral of cash flow for the *North York Central Library* \$0.250 million, *Dawes Road* \$0.665 million and *St Clair/Silverthorn* \$0.150 million as these projects are experiencing delays relating to a lengthy site plan approval process. The acceleration and deferral of funding do not impact approved debt levels.

Solid Waste Management Services (SWMS) has requested an in-year adjustment to transfer project cost and cash flow funding of \$2 million from the *2016 Cell Excavation and Base Construction project* to the *Landfill Gas Control Systems project* to fund the installation of Flare #3. The transfer is possible due to underspending on the *Cell Excavation project* (which has experienced reduced cost for clay excavation, transportation and stockpiling during the final cell stages at the west side of the Green Lane Landfill). Approval of this adjustment will reduce the 2016 budget for the *Cell Excavation and Base Construction project* by \$2 million and increase the *Landfill Gas Control Systems total project cost* from \$1.608 million to \$3.608 million.

Toronto Parking Authority (TPA) requires a budget transfer of \$0.831 million for the acquisition of the property at *5 Chartwell Road* to develop and operate a surface parking facility to service short term parking needs for the surrounding Danforth-Broadview BIA neighbourhood. Funds are available in the *Car Park Provisions* project, which was established in 2016 to accelerate already planned acquisitions and/or accommodate unbudgeted property acquisition opportunity that become available during the year.

CONTACT

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SIGNATURE

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Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Appendix 1 - 2016 Consolidated Capital Variance Report for the Nine Months Ended September 30, 2016
Appendix 2 - Capital Projects to be Closed
Appendix 3 - In-Year Adjustments for the Nine Months Ended September 30, 2016
Appendix 4 - Major Capital Projects
Appendix 5 - Capital Dashboard for Programs/Agencies