

Capital Variance Report for the Six-Month Period Ended June 30, 2017

Date: August 21, 2017
To: Budget 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 spending for the six month period ended June 30, 2017, as well as projected actual expenditures to December 31, 2017. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2017 Approved Capital Budget.

The report also details the 93 completed capital projects with a combined budget of \$118.451 million that are ready to be closed. They have been completed under budget, realizing savings of \$20.342 million. The savings which includes \$10.733 million in debt funding, \$5.373 million in reserves/reserve funds funding, \$0.849 million in Capital from Current funding, \$3.219 million in recoverable debt funding and \$0.168 million in other Revenue will be returned to their original funding sources.

Table 1: Six months and Year-End Projected Spending Rate

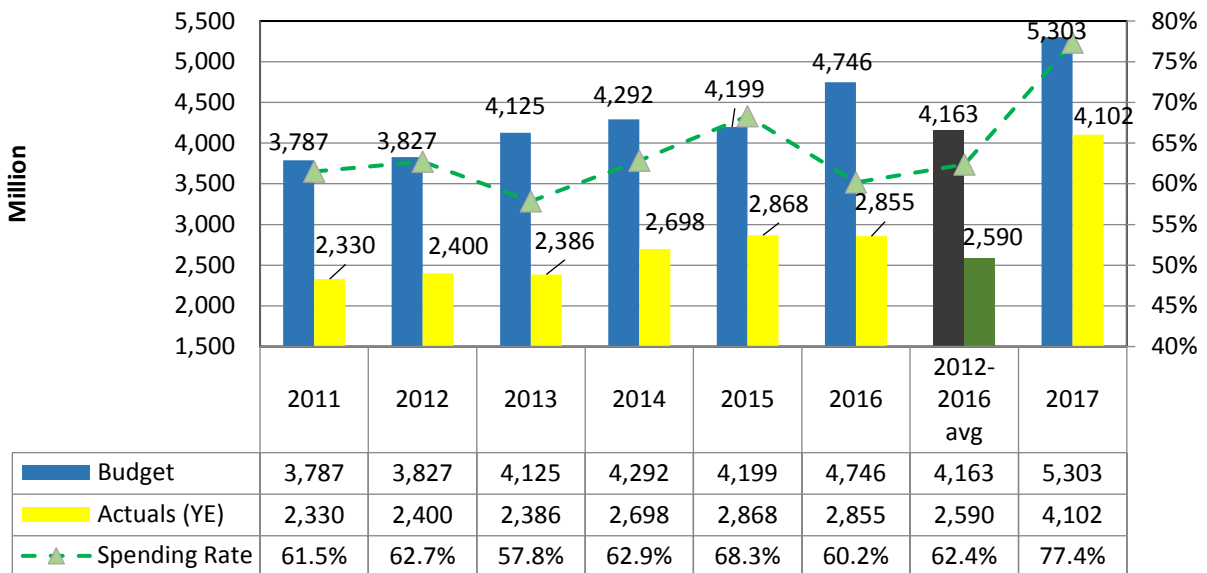
	2017 Approved Budget	Actual Expenditures - January to June		Projected Actual Expenditures at Year-End	
		(\$M)	%	(\$M)	%
Tax Supported	4,170.8	630.9	15.1%	3,212.3	77.0%
Rate Supported Programs:	1,131.9	264.5	23.4%	889.9	78.6%
TOTAL	5,302.7	895.4	16.9%	4,102.2	77.4%

Capital activity in the first half of the year is more preparatory, as such, the spending pattern for the first six months is typically within 20% of the total Council Approved Capital Budget. As detailed by City Program and Agency in Appendix 1, total expenditure for the first six months of 2017 is \$0.895 billion or 16.9% of the 2017 Council Approved Budget, which is consistent with prior year, as compared to 20.5% in Q2 2016 and 19.4% in Q2 2015.

The projected expenditure to year-end is expected to reach \$4.102 billion or 77.4% of the total 2017 Approved Capital Budget. 22 of the 33 City Programs and Agencies have year-end projected spending rate in excess of 70%: Tax Supported Programs project a spending rate of 77.0% while Rate Supported Programs project spending rate of 78.6% by year-end.

Figure 1 below compares the actual year-end spending rate from 2012 and past 5 years with the projected year-end spending rate for 2017.

Figure 1: 2012 - 2017 Capital Spending Rate



The 2017 capital budget of \$5.303 billion represents the highest Capital Budget the City has had for its Tax and Rate Supported Programs. This level of funding reflects an Approved Capital Budget of \$3.708 billion plus a combined 2016 carry forward funding and 2017 in-year budget adjustments of \$1.594 billion. As a result of increased Capital Budgets, the spending as a percentage of the Budget is proportionally lower.

Both the Approved Capital Budget (including carry forward funding) and actual capital expenditures have been steadily trending upwards over the last 5 years: from \$2.400 billion in 2012 to \$2.855 billion in 2016 and projected to reach \$4.102 billion by the end of 2017. While the projected year-end spending rate of 77.4% for 2017 is consistent with year-end spending rate projected at Q2 of prior years, it is optimistic compared to actual year-end spending rate of 60.2% for 2016 and 68.3% for 2015 and also to the past five year's average spending rate of 62.4%.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. Council approve in-year budget adjustments to the 2017-2026 Approved Capital Budget and Plan that result in with no incremental impact on debt funding.
2. Council approve additional carry forward funding of \$2.144 million for Long Term Care Homes & Services (LTCHS). The additional carry forward will increase budget by \$2.144 million gross and net through one year carry forward as required to continue work on previously approved capital projects outlined in table 3.
3. Council receive for information the list of 93 completed capital projects/sub-projects to be closed as detailed in Appendix 2 that results in a total combined project budget savings of \$20.342 million.

FINANCIAL IMPACT

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the six months ended June 30, 2017 as well as projected spending to year-end.

Table 2: Six months Variance and Projection to Year-End

	2017 Approved Budget	Actual Expenditures - January 1 to June 20, 2017		Projected Actual Expenditures at Year-End	
		(\$M)	%	(\$M)	% of Plan
Tax Supported Programs:					
Citizen Centred Services - "A"	404.9	55.3	13.7%	239.9	59.2%
Citizen Centred Services - "B"	654.1	67.4	10.3%	482.9	73.8%
Internal Services	485.4	101.1	20.8%	303.6	62.6%
Corporate Initiatives	209.7	0.1	0.0%	64.1	30.6%
Other City Programs	12.1	2.6	21.2%	11.2	92.4%
Sub Total City Operations	1,766.2	226.4	12.8%	1,101.7	62.4%
Agencies	2,404.6	404.5	16.8%	2,110.7	87.8%
Sub Total - Tax Supported	4,170.8	630.9	15.1%	3,212.3	77.0%
Rate Supported Programs:					
Solid Waste Management	129.9	20.9	16.1%	100.1	77.1%
Toronto Parking Authority	158.5	27.8	17.6%	93.9	59.3%
Toronto Water	843.5	215.7	25.6%	695.8	82.5%
Sub Total Rate Supported	1,131.9	264.5	23.4%	889.9	78.6%
Total	5,302.7	895.4	16.9%	4,102.2	77.4%

Total expenditures for Tax and Rate Supported Programs and Agencies for the second quarter of 2017 are \$0.895 billion representing 16.9% of their combined 2017 Approved Capital Budgets. Actual spending at the end of the six month period is in line with previous years. Projected expenditures are anticipated to reach \$4.102 billion or 77.4% by year-end.

Approval of additional carry forward funding of \$2.144 million recommended in this report will increase the total 2016 carry forward funding for LTCHS from \$3.956 million previously approved by Council to \$6.100 million, with no incremental impact on 2017 approved debt funding. Approval of the incremental carry forward funding recommended in this report will increase the 2017 Approved Capital Budget for LTCHS from \$14.254 million to \$16.398 million.

Table 3 below outlines the additional carry forward funding recommended for Long Term Care Homes & Services (LTCHS)

Table 3: Recommended Additional Carry Forward for LTCHS (\$Millions)

2017 Council Approved Budget	Previously Approved Carry Forward Funding	Additional Carry Forward Funding	Total Carry Forward Funding	Total 2017 Budget
10,298	3,956	2,144	6,100	16,398

Attached to the report are appendices which detail the following:

- Appendix 1 summarizes second quarter spending and year-end projected spending rates by City Program and Agency.
- Appendix 2 details completed projects for various City Programs and Agencies that will be closed in the second quarter of 2017.
- Appendix 3 provides status of Major Capital Projects.
- Appendix 4 details in-year budget adjustments to the 2017 Approved Capital Budget.
- Appendix 5 provides a dashboard for each City Program and Agency for the six months ended June 30, 2017 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%-100% 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

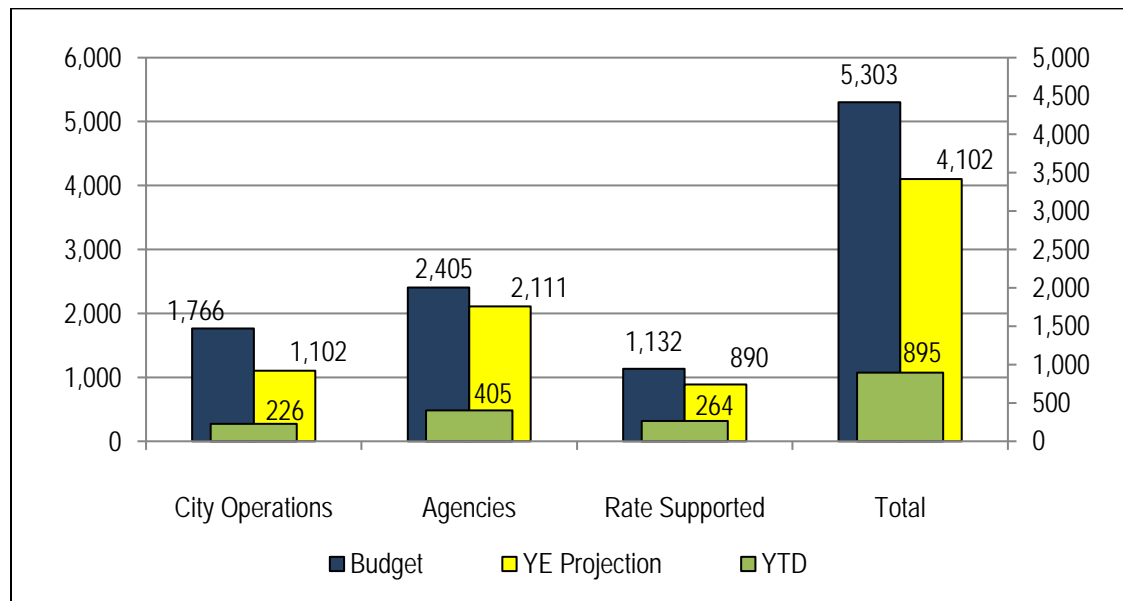
This report is provided in accordance with the City's business practice. As part of the City's financial management and accountability framework, capital variance reports are submitted to Committees and Council on a quarterly basis in order to provide capital spending performance as an indicator of how City Programs and Agencies are progressing on the capital work in 2017, and on an exception basis, to identify issues that require direction and/or decisions from Council.

At its meeting of December 13-14, 2016, Council approved a 2017 Rate-Supported Capital Budget of \$932.391 million and on February 15, 2017, Council approved a 2017 Tax Supported Capital Budget of \$2.776 billion. The 2017 Rate-Supported Capital Budget includes \$729.565 million for Toronto Water, \$99.049 million for Toronto Parking Authority and \$103.777 million for Solid Waste Management Services. Including additional 2016 carry forward funding and in-year budget adjustments for all City Tax and Rate Programs and Agencies, the adjusted Capital Budget for 2017 is \$5.303 billion.

COMMENTS

Figure 2 below summarizes year-to-date and projected spending to year-end for City Programs and Agencies and Rate Supported Programs.

Figure 2: 2017 Capital Budget, Year-to-Date and Year-End Projection (\$Millions)

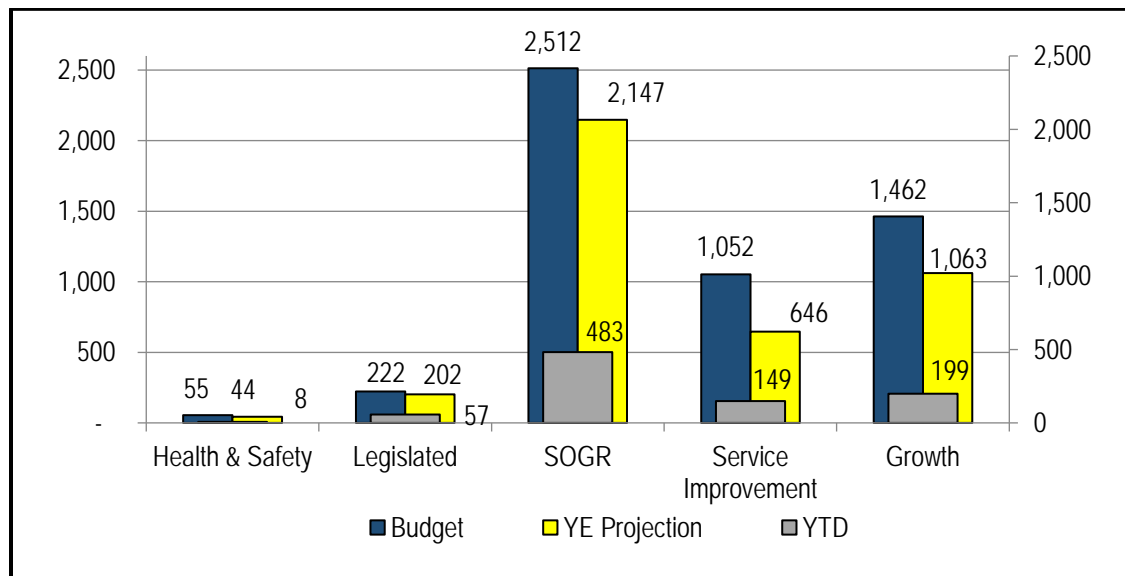


The City's capital work tends to accelerate in the latter part of the year. This is evident in the increased spending projections to 2017 year-end, which indicate total spending of \$4.102 billion or 77.4% of the 2017 Approved Capital Budget.

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).

Figure 3 below compares the 2017 Approved Budget, year-to-date spending and year-end projection for each project category.

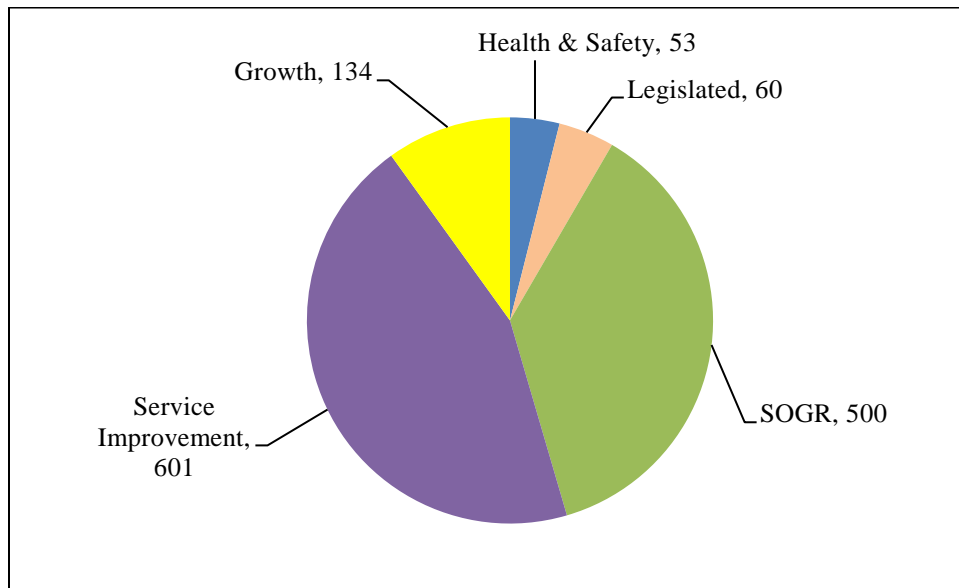
Figure 3: 2017 Approved Budget and Spending by Project Category (\$Millions)



Spending for Health & Safety (\$44.148 million) and Legislated projects (\$202.439 million) is projected to be at 80.9% and 91.2% respectively. State of Good Repair (SOGR) projects account for \$2.512 billion of the City's 2017 Approved Capital Budget of which \$2.147 billion or 85.5% is estimated to be spent by year-end. In addition, it is anticipated that \$646.371 million in approved Service Improvement projects funding and \$1.063 billion for Growth Related projects will be spent by year-end representing a spending rate of 61.4% and 72.7%, respectively.

As illustrated in Figure 4 below, the City has a total of 1,348 active capital projects at the end of the second quarter of 2017.

Figure 4: 2017 Active Projects (1,348)



Of this total, 53 or 3.9% are Health & Safety projects, 60 or 4.5% are Legislated projects, 500 or 37.1% are categorized as State of Good Repair (SOGR) projects, 601 projects or 44.6% are approved Service Improvement projects and 134 or 9.9% are Growth Related projects.

A detailed explanation on the progress of major capital projects can be found in Appendix 3.

Further detail on the progress of all 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.

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. Appendix 2 details projects that have been completed by various City Programs and Agencies which will be closed in the second quarter of 2017. Together these capital projects have a combined budget of \$118.451 million and actual expenditures of \$98.109 million. This results in savings of \$20.347 million which will be returned to their original funding sources.

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 Financial 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 funding to be returned 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 enables 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.

Table 4: 2017 Closed Projects

Closed Projects Q2	Tax Supported Programs	Rate Supported Programs	All City Programs/Agencies
# of Projects Closed:	41	52	93
Project Budgets (\$M)	101.258	17.192	118.451
Actual Capital Expenditure (\$M)	87.753	10.356	98.109
Savings (\$M)	13.506	6.836	20.342
Savings in Debt Funding (\$M)	10.733	0.000	10.733

In addition to the above fully completed projects, 230 capital sub-projects have been completed within 61 Council approved projects. These partially closed capital projects have a combined approved project budget of \$1.139 billion and total life-to-date spending of \$574.030 million. These 61 projects will remain open to allow continuation of capital work of related sub-projects and the residual funds of \$565.086 million will be used to complete the remaining phases or sub-projects of the approved capital projects.

In-Year Budget Adjustments

City Council approval is required for in-year budget and technical adjustments which are detailed in Appendix 4. It is recommended that Council approve the following adjustments:

An adjustment to the 2017 – 2026 Capital Budget and Plan for **Economic Development and Culture (EDC)** is required to transfer \$0.150 million for the *Scarborough Centre Public Art* project for to **Parks, Forestry and Recreation (PFR)** as PFR will be taking on the responsibility to purchase and install the artworks. This project is fully funded by the Public Art Reserve Fund.

Additionally, a technical adjustment to the 2017 – 2026 Capital Budget and Plan for **EDC** is required to address the funding shortfall for its *Guild Revitalization* project. Originally, City Council approved and allocated \$0.100 million of funds from the Guild Inn Reserve; however, the budgeted reserve funds are no longer available as it has funded other projects. To mitigate this issue, **EDC** will temporarily reallocate the debt funding of \$0.096 million approved for the *Windfields Estate* project to *Guild Revitalization* project. Due to tenant-related delays, tendering and construction for the Windfields Estate project will not happen until 2018, as such, the 2018 budget will be adjusted during the 2018 budget cycle to ensure sufficient funds for the project.

The Danforth Business Improvement Area (BIA) has opted to use the BIA Financed Program for its lighting project instead of the existing Equal Share Funding model. As a result, the BIA *equal share funding* project (50/50) will be cancelled and the debt funding of \$0.105 million for *BIA equal share funding* project will be transferred to a new *BIA financed funding* (65/35) project. The switch from 50/50 and 65/35 funded project, the **EDC** 2017 – 2026 Capital Budget and Plan will increase by \$0.090 million gross, and \$0 debt.

An adjustment to the 2017 – 2026 Capital Budget and Plan for **Shelter, Support and Housing Administration** is recommended to reflect Council adoption of the recommendations contained in AH6.4 "Providing New Affordable Housing Opportunities at 389 Church Street" at meeting of April 26, 27 and 28, 2017. The original renovation plan for 389 Church Street with a project cost of \$10.538 million, envisioned 132 permanent self-contained one and two bedroom housing units for women and children to accommodate the Red Door family shelter. Since the Red Door family shelter has found a more suitable location, the report recommends the cancellation of this project from **SSHA's** 2017 – 2026 Capital Budget and Plan and the redirection of the approved funding. The report also recommends the creation of suitable new affordable housing opportunities on the property via agreements between the City and TCHC upon the completion of predevelopment due diligence as well as a redevelopment plan.

An adjustment to the 2017 – 2026 Capital Budget and Plan for **Toronto Paramedic Services** is required to transfer \$0.350 million from *Dispatch Console Replacement* project that will not start until late 2017 due to insufficient staff resources and workload pressures in the Central Ambulance Communication Centre (CACC) Systems and \$0.200 million from *Multi-Function Station #2 – Preparation* project due to lower preparation costs than expected to *NW District Multifunction – Facility* project. The *NW District Multifunction – Facility* project was initially delayed due to unexpected soil remediation and poor weather conditions. The project is being accelerated requiring higher contractor costs to meet the occupancy closing date.

2017 Cash flow funding of \$24.106 million for the St. Lawrence Market North Redevelopment capital project for **Facilities, Real Estate, Environment & Energy (FREEE)** requires deferral from 2017 to 2019 due to further project delays resulting from additional requirements to salvage archeological remains for future public interpretation. The financial impact is a decrease in 2017 cash flows of \$24.106 million (\$9.512 million from recoverable debt, \$7.500 million from the Capital Financing Reserve (XQ0011) and \$7.094 million from transfers from Parking Authority), and a corresponding increase in cash flows in 2019. There is no change to the total project cost of \$90.583 million. There is no impact to the City's approved debt affordability framework as **FREEE's** annual debt targets for the 10-Year Council Approved Capital Budget and Plan are unchanged..

A technical adjustment to the 2017 – 2026 Council Approved Capital Budget and Plan for **Fleet Services** is required to correct a previous adjustment error made in Q3 2016. This adjustment requires a reallocate of \$0.380 million in 2017 reserves cash flow funding from the subproject *Parks, Forestry & Recreation Vehicle/Equipment 2016* to the correct subproject, *Parks, Forestry & Recreation Vehicle/Equipment 2013*. There is no impact to the total project cost for the *Parks, Forestry & Recreation Fleet Replacement* capital project.

Reduction of \$0.101 million in the 2017-2026 Council Approved Capital Budget and Plan for **Information & Technology (I&T)** for *ENT Geospatial Program 2014* project is required since 2017 phase will be completed below budget due to cost savings. Also, acceleration of \$0.100 million in funding from 2018 to 2017 is required for *Quality Assurance & Testing Software Upgrade* project to fund resource requirements in 2017.

A reduction of \$1.464 million in project cost funded by debt is required for the 2017 – 2026 Capital Budget and Plan for **City Clerk's Office** for the *Voting Equipment* capital project. A lower capital budget for the *Voting Equipment* is to reflect the outcome of negotiations with the vendor based on agreed Statement of Work and timelines, and to reflect Council's decision not to proceed with ranked choice voting in the 2018 municipal election.

Two adjustments to 2017 – 2026 Capital Budget and Plan are required for **Exhibition Place** to correct the funding sources of \$1.920 million for the *Hotel X Bridge* project as it was erroneously recorded as CFC-funded as supposed to debt-funded as approved by City Council, and to transfer \$0.001 million from Exhibition Place Stadium Capital Improvement Reserve Fund (XR1028) to the *System Integration and Support* project at the Enercare Centre.

An adjustment to **Toronto & Region Conservation Authority's (TRCA) 2017-2026 Capital Budget and Plan** is required to reallocate funds from *Extra Erosion Major Maintenance* project in the amount of \$0.830 million to Critical Erosion Control & Floodwork project and \$0.234 million to Waterfront Development to address the additional funding required to complete the shoreline works for the Fishleigh-Midland sub-project, and extensive damage to several TRCA structures as a result of the 2017 high lake levels

A change of scope without increasing the project cost is required for **Toronto & Region Conservation Authority (TRCA) 441-449 Guildwood Parkway** project to add additional property at 461 Guildwood Parkway since conditions for acquisition of the original properties changed. 461 Guildwood Parkway is also vulnerable and in danger of erosion. This change of scope is to include the 461 Guildwood Parkway as this property is also at risk. Funding for the project is coming from the Toronto Water.

An adjustment of \$2.632 million is required for the **Toronto Police Services' 2017 – 2026 Capital Budget and Plan** to create a project for Phase 1 of the *Connected Mobile Officer Initiative*. The Ministry of Community Safety and Correctional Services through the *Police Effectiveness and Modernization (P.E.M.)* initiative, has approved a grant of \$2.632 million for the initial phase of this project to begin in 2017. The funding will be used for the proof of concept (P.O.C.) and the acquisition of approximately 700 devices. The \$2.643 million is part of the total implementation cost.

The full cost of \$24 million to implement this project does not fit within existing Police Service debt target. The balance of funding needed for this project (\$21.368 million) will be included as a below-the-line request in the Polices Service's 2018 - 2027 Capital Budget Submission for consideration along with other City priorities.

An adjustment to the 2017 – 2026 Council Approved Capital Budget and Plan for **Toronto Public Health** is required to reflect funding increase in funding of \$0.348 million from the Ministry of Health and Long Term Care for the ongoing and planned operations, upgrades, deployment and adoption activities for components of the *Panorama System* project.

The 2017 – 2026 Council Approved Capital Budget and Plan for **Solid Waste Management Services (SWMS)** is to be adjusted so that resources previously identified for 2017 under the *Long Term Waste Management Strategy* project will be rationalized and re-targeted in order to finance capital works for *biogas infrastructure at the Dufferin SSO Facility* (\$3 million) and incremental requirements arising from the purchase of *SSO In-Unit Kitchen Containers* (\$0.384 million).

Further adjustment to the 2017 Capital Budget for **SWMS** is required to re-allocate funding of \$3.158 within the *Green Lane Landfill Development* project to advance capital works including increased contingency amounts for site improvements for Site Services/Final Cover/Storm Control, two remaining property purchases that will close by year-end and the construction of leachate control systems.

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SIGNATURE

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Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Appendix 1 2017 Capital Variance Summary for the Six months Ended June 30, 2017
Appendix 2 Capital Projects for Closure
Appendix 3 Major Capital Projects
Appendix 4 In-Year Adjustments for the Six months Ended June 30, 2017
Appendix 5 Capital Dashboard for Programs/Agencies