

Capital Variance Report for the Nine-Month Period Ended September 30, 2017

Date: November 20, 2017

To: Budget Committee and Executive Committee

From: Acting 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 nine month period ended September 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 180 completed capital projects with a combined budget of \$206.066 million that are ready to be closed. They have been completed under budget, realizing savings of \$22.208 million. The permanent underspending which includes \$6.603 million in debt funding, \$12.171 million in reserves/reserve funds funding, \$2.025 million in Capital from Current funding, \$0.311 million in Development Charges funding and \$1.098 million in other Revenue will be returned to their original funding sources.

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

	2017 Approved Capital Budget	Actual Expendi- tures - January to Septem- ber	Actual Expendi- tures - January to Septem- ber	Project ed Actual Expen- ditures at Year- End	Project ed Actual Expen- ditures at Year- End
		(\$M)	%	(\$M)	%
Tax Supported	4,141.2	1,209.9	29.2%	2,827.4	68.3%
Rate Supported Programs:	1,131.9	471.8	41.7%	853.5	75.4%
TOTAL	5,273.1	1,681.8	31.9%	3,680.8	69.8%

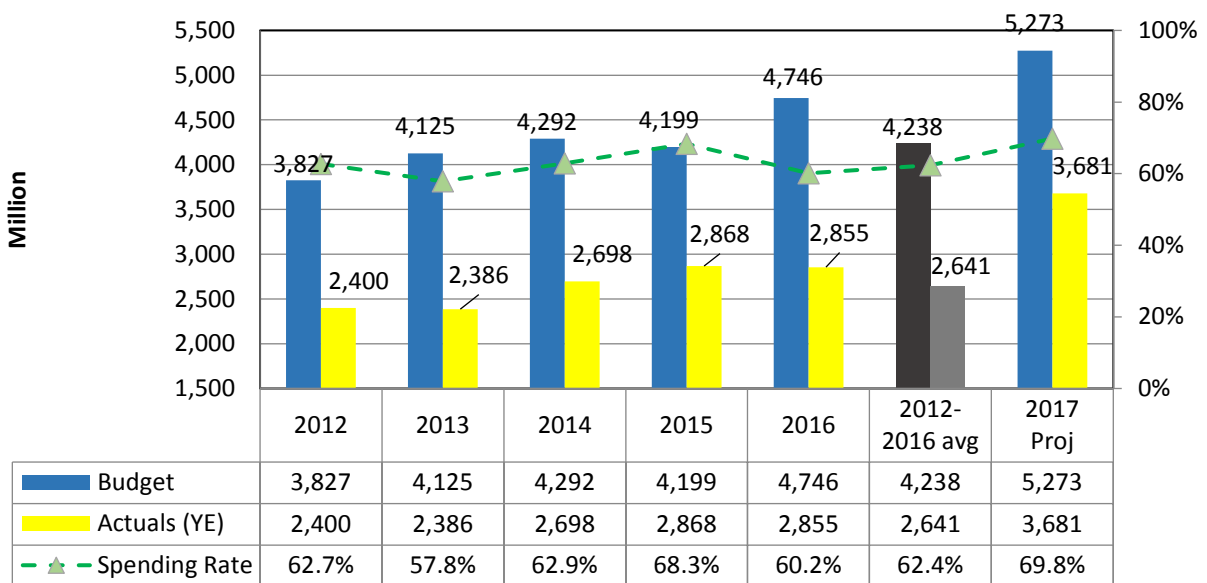
The spending pattern for the first nine months is typically within 40% of the total Council Approved Capital Budget. As detailed by City Program and Agency in Appendix 1, total expenditures for the first nine months of 2017 is \$1.682 billion or 31.9% of the 2017

Council Approved Budget, which is slightly lower than prior years, as compared to 33.2% in Q3 2016, 37.0% in Q3 2015 and 35.7% in Q3 2014.

The projected expenditure to year-end is expected to reach \$3.681 billion or 69.8% of the total 2017 Approved Capital Budget. 14 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 68.3% while Rate Supported Programs project spending rate of 75.4% by year-end.

Figure 1 below compares the actual year-end spending rate from 2012 to 2016 average with the projected year-end spending rate for 2017.

Figure 1: 2012 - 2017 Capital Spending Rate



The 2017 Capital Budget of \$5.273 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 \$1.565 billion. As a result of increased Capital Budgets, the spending as a percentage of the Budget is proportionally lower.

The projected year-end spending rates are based on the submissions from the City Operation Divisions and Agencies, and as such, we have accordingly relied on the advice in preparing this report. 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 \$3.681 billion by the end of 2017. While the projected year-end spending rate of 69.8% for 2017 is consistent with the year-end spending rate projected at Q3 in prior years, it is higher compared to actual year-end spending rate of 60.2% for 2016 and 68.3% for 2015 as well as past five years' average spending rate of 62.4%.

RECOMMENDATIONS

The Acting Chief Financial Officer recommends that:

1. Council approve in-year budget adjustments to the 2017-2026 Approved Capital Budget and Plan that result in no incremental impact on debt funding.
2. Council receive for information the list of 180 completed capital projects/sub-projects to be closed as detailed in Appendix 2 that results in a total combined project budget savings of \$22.069 million.

FINANCIAL IMPACT

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

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

	2017 Approved Capital Budget	Actual Expendit ures - January 1 to Septemb er 30, 2017	Actual Expendit ures - January 1 to Septemb er 30, 2017	Projecte d Actual Expendit ures at Year- End	Projecte d Actual Expendit ures at Year- End
		(\$M)	%	(\$M)	% of Budget
Tax Supported Programs:					
Citizen Centred Services - "A"	394.0	109.3	27.7%	215.4	54.7%
Citizen Centred Services - "B"	656.5	153.5	23.4%	402.9	61.4%
Internal Corporate Services	433.0	146.6	33.9%	262.0	60.5%
Chief Financial Officer	29.5	7.1	24.1%	16.8	57.0%
Corporate Initiatives	209.2	1.6	0.7%	59.1	28.3%
Other City Programs	9.5	3.7	39.2%	8.2	86.5%
Sub Total City Operations	1,731.7	421.7	24.4%	964.5	55.7%
Agencies	2,409.6	788.2	32.7%	1,862.9	77.3%
Sub Total - Tax Supported	4,141.2	1,209.9	29.2%	2,827.4	68.3%
Rate Supported Programs:					
Solid Waste Management	129.9	46.7	35.9%	99.1	76.3%
Toronto Parking Authority	158.5	44.5	28.1%	86.4	54.5%
Toronto Water	843.5	380.7	45.1%	667.9	79.2%
Sub Total Rate Supported	1,131.9	471.8	41.7%	853.5	75.4%
Total	5,273.1	1,681.8	31.9%	3,680.8	69.8%

Total expenditures for Tax and Rate Supported Programs and Agencies for the third quarter of 2017 are \$1.682 billion representing 31.9% of their combined 2017 Approved Capital Budgets. Actual spending at the end of the nine month period is in line with previous years. Projected expenditures are anticipated to reach \$3.681 billion or 69.8% by year-end.

Appendix 1 summarizes the first three quarters of spending and year-end projected spending rates by City Program and Agency.

Table 3 below outlines the savings from projects that have been completed in the first three quarters of 2017

Table 3: Completed Projects for the first nine months of 2017

Tax Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Total 2017
# of Closed Projects	40.0	41.0	175.0	256.0
Project Budget (\$M)	317.5	101.3	205.7	624.5
Actual Expenditure (\$M)	316.9	87.8	183.5	588.2
Savings (\$M)	0.5	13.5	22.1	36.1
Savings in Debt Funding (\$M)	0.0	10.7	6.6	17.4
Rate Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Total 2017
# of Closed Projects	13.0	52.0	5.0	70.0
Project Budget (\$M)	4.6	17.2	0.3	22.2
Actual Expenditure (\$M)	2.9	10.4	0.3	13.5
Savings (\$M)	1.8	6.8	0.0	8.6
Savings in Debt Funding	0.0	0.0	0.0	0.0
All City Programs/Agencies	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Total 2017
# of Closed Projects	53.0	93.0	180.0	326.0
Project Budget (\$M)	322.1	118.5	206.1	646.6
Actual Expenditure (\$M)	319.8	98.1	183.9	601.8
Savings (\$M)	2.3	20.3	22.2	44.9
Savings in Debt Funding (\$M)	0.0	10.7	6.6	17.4

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. 326 capital projects was completed in the first nine months of 2017 with a combined budget of \$646.606 million. They have been completed under budget, realizing savings of \$44.854 million. The savings which includes \$17.367 million in debt funding, \$18.483 million in reserves/reserve funds funding, \$2.873 million in Capital from Current funding, \$0.397 million in Development Charges funding, \$4.468 million in recoverable debt and \$1.266 million in other Revenue will be returned to their original funding sources.

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 currently \$5.273 billion.

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

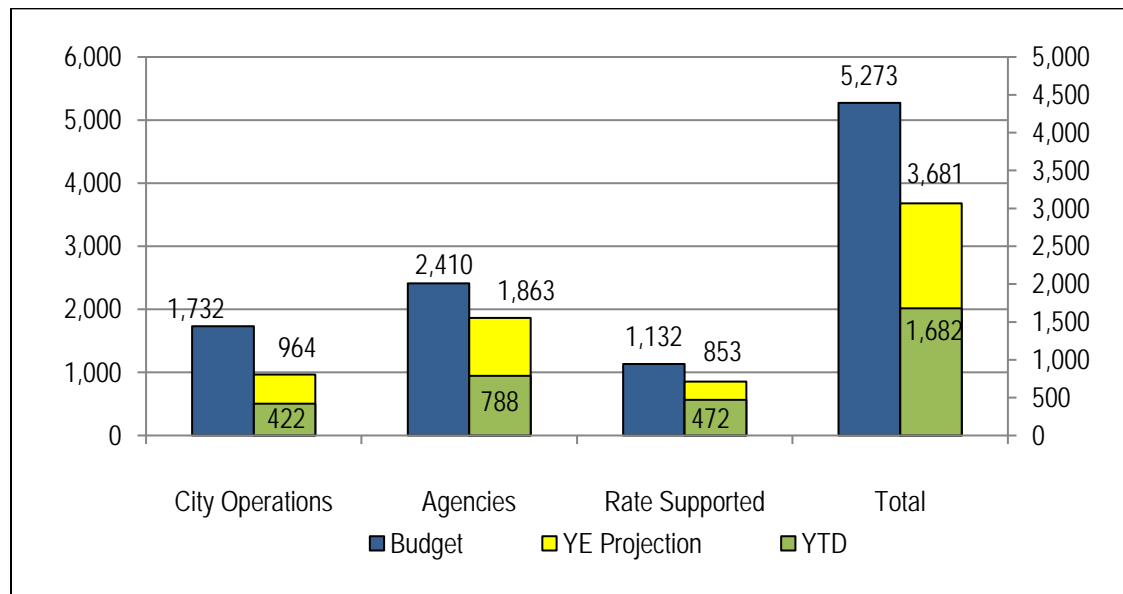
Yellow – Between 50% and 70% of Budget Spent

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

COMMENTS

Figure 2 below summarizes Q3 year-to-date and projected spending to year-end for City Programs, Agencies and Rate Supported Programs.

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

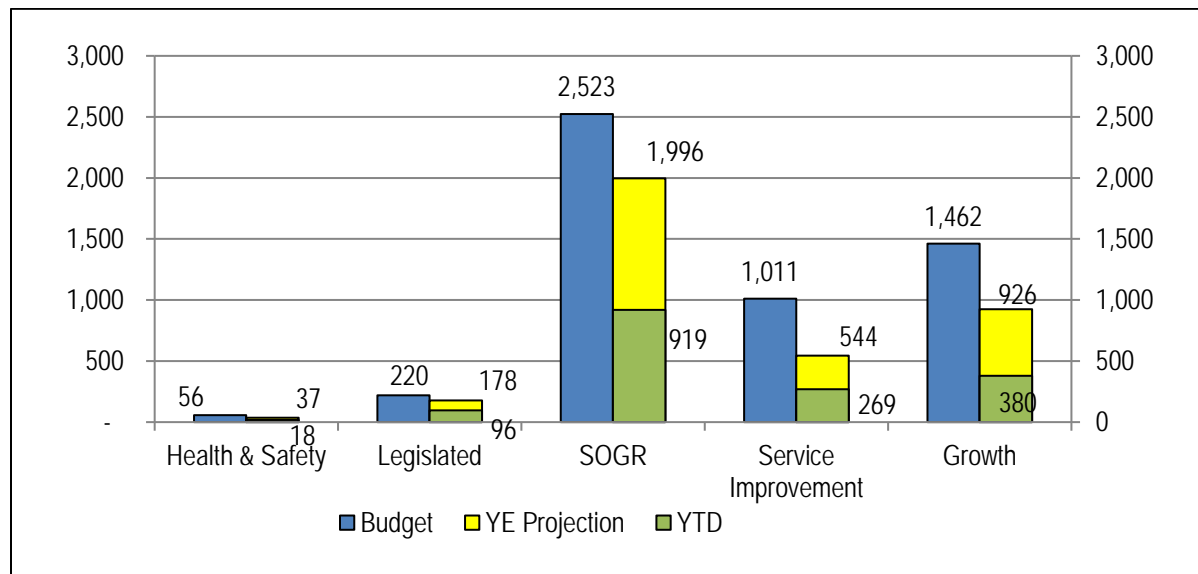


The City's capital work tends to accelerate in the latter part of the year. This is evident in the increased spending projections to 2017 year-end, which indicate total spending of \$3.681 billion or 69.8% of the 2017 Approved Capital Budget.

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.

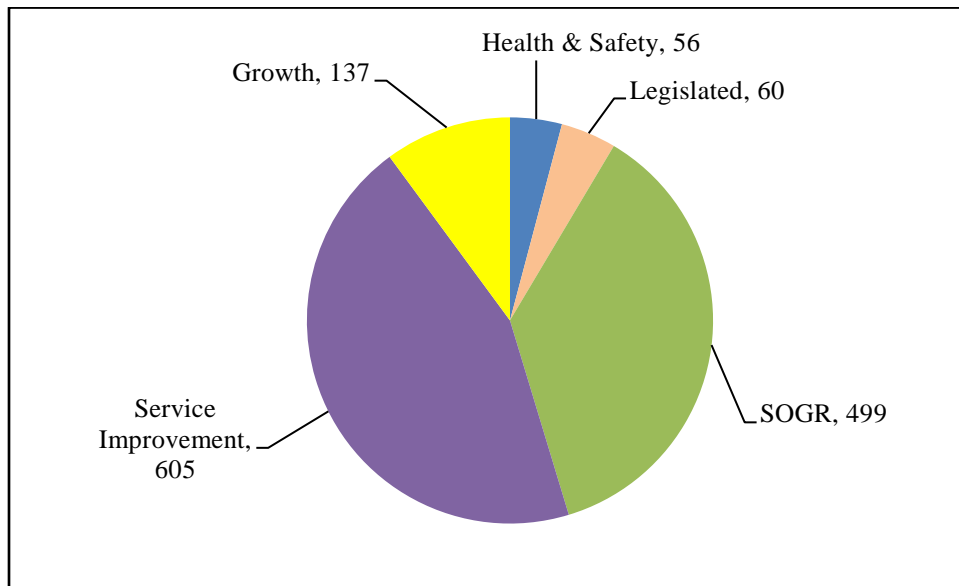
Figure 3: 2017 Approved Budget and Spending by Project Category (\$Millions)



Spending by year end for Health & Safety (\$37.067 million) and Legislated projects (\$177.898 million) is projected to be at 65.7% and 80.8% respectively. State of Good Repair (SOGR) projects account for \$2.523 billion of the City's 2017 Approved Capital Budget of which \$1.996 billion or 79.1% is estimated to be spent by year-end. In addition, it is anticipated that \$544.426 million in approved Service Improvement projects funding and \$925.701 million for Growth Related projects will be spent by year-end, representing a spending rate of 53.8% and 63.3%, respectively.

As illustrated in Figure 4 below, the City has a total of 1,357 active capital projects at the end of the third quarter of 2017.

Figure 4: 2017 Active Projects (1,357)



Of this total, 56 or 4.1% are Health & Safety projects, 60 or 4.4% are Legislated projects, 499 or 36.8% are categorized as State of Good Repair (SOGR) projects, 605 projects or 44.6% are approved Service Improvement projects and 137 or 10.1% 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.

Appendix 2 details projects that have been completed in the third quarter of 2017 by various City Programs and Agencies which will be closed. Together these capital projects have a combined budget of \$206.066 million and actual expenditures of \$183.859 million. This results in permanent underspending of \$22.069 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 Q3 Closed Projects

Closed Projects Q3	Tax Supported Programs	Rate Supported Programs	All City Programs/ Agencies
# of Closed Projects	175	5	180
Project Budget (\$M)	205.737	0.329	206.066
Actual Expenditure (\$M)	183.542	0.316	183.859
Savings (\$M)	22.195	0.013	22.208
Savings in Debt Funding (\$M)	6.603	0.000	6.603

In addition to the above fully completed projects, 2 capital sub-projects, namely Mobile Data Communications 2007-2010 in Toronto Paramedic Services and CM Ground Floor Slab in Solid Waste Management have been completed within 2 Council approved projects. These projects will remain open to allow continuation of capital work of related sub-projects and the residual funds will be used to complete the remaining phases or sub-projects of the approved capital projects. These partially closed capital projects have a combined approved total project budget of \$7.324 million and total life-to-date spending of \$6.654 million. The remaining Council approved funding available for outstanding phases or sub-projects is \$0.670 million.

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:

Children's Services

An amendment to the 2017 Approved Capital Budget for Children's Services is required to change the funding source of three projects to Child Care Capital Reserve Fund (XR1103):

- Advent Heath Child Care Centre to replace \$1.989 million of Development Charge Funding,
- TCH Lawrence Avenue Site to replace \$0.460 million Development Charge Funding and
- TELCCS State of Good Repair – Danforth to replace \$0.231 Debt Funding.

Funds were received through the Canada-Ontario Early Learning and Child Care Agreement as per report EX26.30 - *Children's Services Amendment to the 2017 Operating Budget to Reflect Increase in Provincial Contributions* adopted by Council on July 4, 2017, of which \$2.680 million were contributed to the Child Care Capital Reserve Fund (XR1103) with the purpose of being allocated to capital projects to renovate, retrofit or build new child care centres for children 0-4.

Economic Development and Culture (EDC)

An adjustment to the 2017 – 2026 Capital Budget and Plan for Economic Development and Culture (EDC) is required to reduce the *2017 Chinatown BIA Financed Funding project* by \$1.100 million gross with no impact to debt as per the actual project cost tender of \$1.250 million. The original project cost estimate was \$2.350 million.

Additionally, two technical adjustments to the 2017 – 2026 Capital Budget and Plan for EDC are required to reallocate debt funding of \$0.125 million from the *Gibson House and Large Artifact Care projects* to the *Windfields Estate – Water Service project* which includes such restoration work and roof repairs, and reallocate debt funding of \$0.049 million and reserve fund contributions of \$0.050 million from the *2016 Theatre Passe Muraille project* to the *2017 Theatre Passe Muraille project* to address the change in scope of work from the 2016 and *Berkeley Theatre Maintenance project* to stabilize the structural retaining wall of the Theatre.

The streetscape improvement project on Wellington Street by Financial District BIA has been deferred to 2019. The debt funding of \$0.100 million is reallocated from *2017 Financial District ESF project* to the new *2017 Streetscape Master Plan project* which will assist the BIAs with the initial planning phase of the streetscape improvement work.

Parks, Forestry and Recreation

An adjustment to the 2017 – 2026 Capital Budget and Plan for Parks, Forestry and Recreation is recommended to change the funding source for two capital projects:

- \$0.250 million in reserve funding for the Lower Don Trail Improvement be changed to donations in order to recognize the acceptance of an additional \$0.250 million donation from Evergreen; and
- \$0.750 million in funding for the College Park Artificial Ice Rink be changed from donations (Other) to Section 42 Alternate Rate Cash-in-lieu (Other) to complete the project.

The community was expected to raise donations for the new outdoor artificial ice rink (skating trail) and rink house as part of the College Park rejuvenation and they did meet the full anticipated fundraising goal. An amendment to the *Lower Don Improvement project* is supported by PE27.1 Authorization to Enter the Agreement with Evergreen regarding Third-Party Fundraising for the Lower Don Trail adopted by City Council on June 10th, 2014 granted authority to the General Manager of Parks, Forestry and Recreation to accept third-party funds raised through Phase 1 of the "The Ribbon Campaign" and to contribute the funds as they become available to the *Lower Don capital projects*.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.PE27.1>

Toronto Paramedic

An adjustment is required to the 2017-2026 Capital Budget and Plan for **Toronto Paramedic Services** to defer \$0.401 million from the *Ambulance Radio Replacement project* which is delayed to 2018 pending RFP award and to reallocate the to *Medical Equipment Replacement project* that requires additional defibrillators due to Paramedic position increases in 2015 and 2016. The defibrillators RFQ was awarded in 2014, at that time it did not include the additional requirement for defibrillators as a result of Paramedic position increases.

Transportation Services and Toronto Parking Authority

Adjustments to the 2017-2026 Capital Budgets & Plans for both Transportation Services and the Toronto Parking Authority are required to transfer the project cost and 2017 cash flow for the delivery of the Bike Share program. These adjustments will transfer funding of \$1.867 million approved for the Bike Share program in the Cycling Infrastructure project from Transportation Services to the *Bike Share Expansion Metrolinx project* to the Toronto Parking Authority. The funding is comprised of \$0.667 million from the Major Special Events Reserve Fund (XR1218) and \$1.200 million from the MoveOntario 2020 Reserve Fund.

City Clerk's Office

An adjustment to the 2017-2026 Capital Budget & Plan for **City Clerk's Office** is required to reallocate cash flows funding for the *Voting Equipment Project* back to 2017 to reverse a technical error in an adjustment made in Q2.

Information & Technology

Information & Technology has requested in-year budget adjustments resulting in a net zero impact to their 2017 Capital Budget. \$1.006 million will be transferred out from the *Intranet Refresh project* as a result of reduced scope and will be transferred as follows: \$0.256 million to the *TOInView project* to enable project work due to scope changes, and \$0.750 million to the *Workforce Business Intelligence project* to continue to the next phase following favourable results from its initial phase. The third adjustment reallocates funds within the Assets Lifecycle Management program, transferring \$0.500 million from the *Desktop Hardware Replacement* to *Network Asset Replacement* for corporate network switches.

Exhibition Place

An adjustment to the 2017 Council Approved Capital Budget for Exhibition Place is required to accommodate the delay of the Hotel "X" Bridge into 2019, arising from considerations around the heritage buildings on site. This adjustment will reallocate \$1.709 million of debt funding for this project to eight state of good repair projects which are ready to be completed in 2017. The Hotel "X" Bridge will be completed in 2019, with no change to the total project cost, and within the overall debt allocation for Exhibition Place for 2019.

Solid Waste Management Services

An adjustment to the 2017 – 2026 Council Approved Capital Budget and Plan for Solid Waste Management Services is required to reallocate the funding for 2017 *Long Term Waste Management Strategy project* to finance the capital purchase of Multi-Residential SSO Bulk Bins due to a contract settlement with the supplier. Funds (\$0.207 million) from the *Long Term Strategy subproject for Reduce & Reuse, Multi-Residential project* and Incentives will be re-allocated to supplement the cash flow budget for the Bulk Bins.

CONTACT

Josie La Vita,
Executive Director, Financial Planning,
Tel: 416-397-7229
Fax: 416-397-4465

Andy Cui,
Manager, Financial Planning,
Tel: 416-397-7229
Fax: 416-397-4465

SIGNATURE

Joe Farag
Acting Chief Financial Officer

ATTACHMENTS

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