TORONTO

REPORT FOR ACTION

Capital Variance Report for the Three-Month Period ended March 31, 2018

Date: May 18, 2018
To: Budget Committee
From: Interim 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 three month period ended March 31, 2018, as well as projected actual expenditures to December 31, 2018. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2018 Approved Capital Budget and additional carry-forward from 2017 that have no impact on approved debt.

The report also details the 30 completed capital projects that have a combined budget of $72.114 million that are ready to be closed. They have been completed under budget, realizing underspending of $4.498 million. The permanent underspending which has associated funding of $0.859 million in debt, $3.446 million in reserves/reserve funds, $0.005 million in Provincial Grants, $0.025 million in Development Charges and $0.164 million in other Revenue will be returned to their original funding sources.

Table 1: Three months and Year-end Projected Spending Rate

	2018 Approved Capital Budget	Actual Expenditures - January to March		Projected Actual Expenditures at year-end	
		($M)	%	($M)	%
Tax Supported	4,652.4	441.1	9.5%	3,708.2	79.7%
Rate Supported Programs:	1,180.5	69.0	5.8%	965.8	81.8%
TOTAL	5,832.9	510.1	8.7%	4,674.0	80.1%

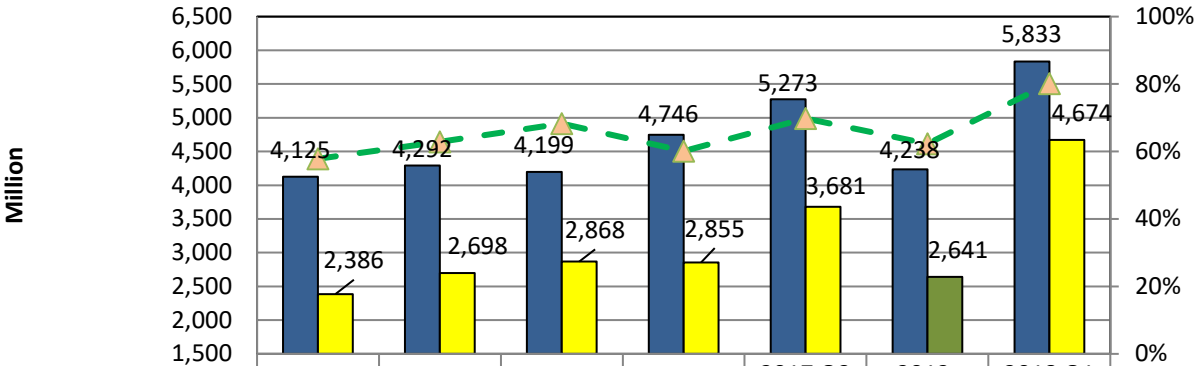
The spending pattern for the first three months is typically within 10% of the total Council Approved Capital Budget. As detailed by City Program and Agency in Appendix 1, total expenditures for the first three months of 2018 is $0.510 billion or 8.7% of the 2018 Council Approved Budget, representing a higher spending rate than prior years, when compared to $285.884 million or 5.4% in Q1 2017 and $277.337 million or 5.9% in Q1 2016.

The projected expenditure to year-end is expected to reach $4.674 billion or 80.1% of the total 2018 Approved Capital Budget. 23 of the 31 City Programs and Agencies have projected year-end spending rate in excess of 70%: Tax Supported Programs project a spending rate of 79.7% while Rate Supported Programs project a spending rate of 81.8% by year-end.

The projected year-end spending rates presented in this report are based on the submissions from each Program and Agency, and as such, the preparation of this report has been based on this information.

Figure 1 below compares the actual year-end spending rate from 2013 to 2018 showing the 5 year average spending rate from 2012 to 2016, the Q3 projected year-end spending for 2017 and the Q1 projected year-end spending rate for 2018.

Figure 1: 2013 - 2018 Capital Spending Rate



	2013	2014	2015	2016	2017 Q3 Proj	2012-2016 avg	2018 Q1 Proj
Budget	4,125	4,292	4,199	4,746	5,273	4,238	5,833
Actuals (YE)	2,386	2,698	2,868	2,855	3,681	2,641	4,674
Spending Rate	57.8%	62.9%	68.3%	60.2%	69.8%	62.3%	80.1%

The 2018 Capital Budget of $5.833 billion represents the highest Capital Budget the City has had for its Tax and Rate Supported Programs. This level of funding reflects a Council Approved Capital Budget of $4.011 billion plus a combined adjustment for 2017 carry forward funding and 2018 in-year budget amendments of $1.822 billion.

Both the Approved Capital Budget (including carry forward funding) and actual capital expenditures have been steadily trending upwards over the last 5 years: from $2.386 billion in 2013 to spending of $2.855 billion in 2016 and projected in Q3 2017 to reach $3.681 billion by the end of 2017. While overall capital spending has increased annually, the spending rate is relative to the higher approved funding levels. The projected year-end spending rate of 80.1% for 2018 is higher compared to historic year-end spending rates. This is the best estimate that City Programs and Agencies can provide at this early stage in the year.

RECOMMENDATIONS

The Interim Chief Financial Officer recommends that:

1. Council approve in-year budget adjustments to the 2018-2027 Approved Capital Budget and Plan as detailed in Appendix 4 that result in no incremental impact on debt funding.

2. Council approve additional 2017 carry forward funding for Sony Centre as detailed in Appendix 6, and increase 2018 Approved Capital Budget by $0.989 million to be funded from Development Charges ($0.289 million) and other developer contribution ($0.700 million).

3. Council receive for information the list of 30 completed capital projects/sub-projects to be closed as detailed in Appendix 2 that results in a total combined project budget an underspending of $4.498 million.

FINANCIAL IMPACT

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the three months ended March 31, 2018 as well as projected spending to year-end 2018.

Table 2: Three Month Variance and Projection to Year-end

	2018 Approved Budget	Actual Expenditures - January 1 to March 31, 2018		Projected Actual Expenditures at year-end	
		($M)	%	($M)	% of Budget
Tax Supported Programs:					
Citizen Centred Services - "A"	619.0	71.1	11.5%	514.3	83.1%
Citizen Centred Services - "B"	762.5	35.1	4.6%	554.5	72.7%
Internal Corporate Services	519.0	39.8	7.7%	370.5	71.4%
Chief Financial Officer	32.1	4.5	14.1%	23.2	72.4%
Corporate Initiatives	260.2	-0.5	-0.2%	260.7	100.2%
Other City Programs	10.0	1.8	17.6%	9.8	97.6%
Sub Total City Operations	**2,202.8**	**151.8**	6.9%	**1,733.0**	78.7%
Agencies	2,449.6	289.3	11.8%	1975.2	80.6%
Sub Total - Tax Supported	**4,652.4**	**441.1**	9.5%	**3,708.2**	79.7%
Rate Supported Programs:					
Solid Waste Management	128.7	9.2	7.1%	82.7	64.3%
Toronto Parking Authority	105.3	0.1	0.1%	78.1	74.2%
Toronto Water	946.6	59.7	6.3%	805.0	85.0%
Sub Total Rate Supported	**1,180.5**	**69.0**	5.8%	**965.8**	81.8%
Total	**5,832.9**	**510.1**	8.7%	**4,674.0**	80.1%

Total expenditures for Tax and Rate Supported Programs and Agencies for the first quarter of 2018 are $0.510 billion representing 8.7% of the combined 2018 Approved Capital Budget. Actual spending at the end of the three month period is higher compared to the dollar and percentage of spending in previous years.

Projected expenditures are anticipated to reach $4.674 billion or 80.1% by year-end. The high projected spending rate is mainly driven by the Toronto Transit Commission, Shelter, Support & Housing Administration and Corporate Initiatives projects.

Appendix 1 summarizes the first quarter spending and year-end projected spending rate by City Program and Agency.

Projects to be closed

Table 3 below outlines the underspending from projects that have been completed in the first quarter of 2018.

Table 3: Completed Projects for the First quarter 2018

Closed Projects Q1	Tax Supported Programs	Rate Supported Programs	All City Programs/ Agencies
# of Closed Projects	30	0	30
Project Budget ($M)	72.114	0	72.114
Actual Expenditure ($M)	67.617	0	67.617
Underspent ($M)	4.498	0	4.498
Underspent Debt Funding ($M)	0.859	0	0.859

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. 30 capital projects were completed in the first three months of 2018 that have a combined budget of $72.114 million. They have been completed under budget, with an underspending of $4.498 million. The permanent underspending has associated funding of $0.859 million in debt, $3.446 million in reserves/reserve funds, $0.005 million in Provincial Grants, $0.025 million in Development Charges, and $0.164 million in other Revenue which 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 2018, and on an exception basis, to identify issues that require direction and/or decisions from Council.

At its meeting of December 5-8, 2017, Council approved a 2018 Rate-Supported Capital Budget of $1.015 billion and on February 12, 2018, Council approved a 2018 Tax Supported Capital Budget of $2.995 billion. The 2018 Rate-Supported Capital Budget provides $865.221 million for Toronto Water, $57.241 million for Toronto Parking Authority and $92.801 million for Solid Waste Management Services. Including additional 2017 carry forward funding and in-year budget adjustments for all City Tax and Rate Programs and Agencies, the adjusted Capital Budget for 2018 is currently $5.833 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:

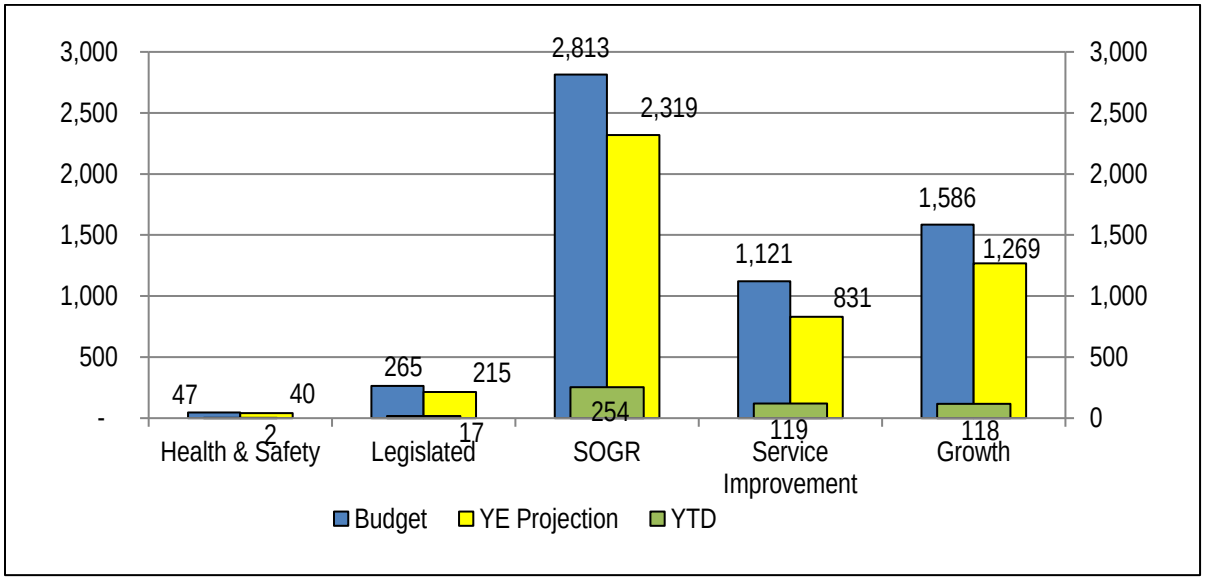
Green – 70%-100% or more of Budget Spent
Yellow – Between 50% and 70% of Budget Spent
Red – Less than 50% of Budget Spent or more than 100% of Budget Spent

COMMENTS

The City's capital program encompasses 5 categories of capital work: Health & Safety projects; Legislated projects; State of Good Repair projects; Service Improvement projects; and Growth Related projects.

Figure 3 below compares the 2018 Total (Rate and Tax) Approved Budget, year-to-date spending and year-end projection for each project category.

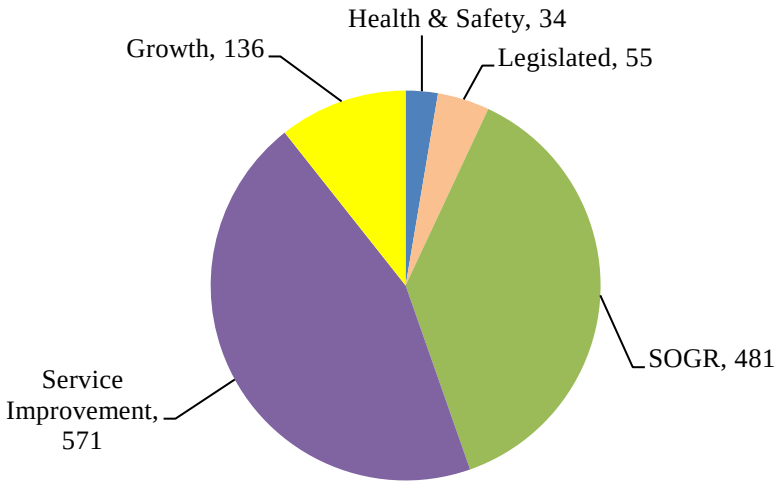
Figure 2: 2018 Approved Budget and Spending by Project Category ($Millions)



Spending by year end for Health & Safety ($40.051 million) and Legislated projects ($215.400 million) is projected to be 85.1% and 81.3% spent respectively. State of Good Repair (SOGR) projects account for $2.813 billion of the City's 2018 Approved Capital Budget of which $2.319 billion or 82.4% is estimated to be spent by year-end. In addition, it is anticipated that $830.657 million for approved Service Improvement projects and $1.269 billion for Growth Related projects will be spent by year-end, representing a spending rate of 74.1% and 80.0%, respectively.

As illustrated in Figure 3 below, the City has a total of 1,277 previously approved and new 2018 capital projects open at the end of the first quarter of 2018.

Figure 3: 2018 Open Projects (1,277)



Service Improvement projects account for the majority of open projects totalling 571 or 44.7% of the total projects while SOGR projects account for 481 or 37.7% of all SOGR projects which have increased from 2017 as a result of new investments approved in the 2018 Capital Budget.

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

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 30 capital projects that have been completed in the first quarter of 2018 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of $72.114 million and actual expenditures of $67.617 million. This results in permanent underspending of $4.498 million for which the associated funding 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 underspending 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.

In addition to the fully completed projects, 20 capital sub-projects have been completed within 6 Council approved projects. These projects will remain open to allow continuation of capital work for the remaining sub-projects and the residual funds will be used to complete the remaining phases or sub-projects of the approved capital projects. These capital projects have a combined approved total budget of $357.369 million and total life-to-date spending of $343.538 million. The remaining Council approved funding of $13.830 million will be used to complete outstanding phases or sub-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, these includes:

Economic Development and Culture (EDC)

Adjustments are recommended to the Economic Development and Culture (EDC) 2018 Capital Budget which will result in an overall reduction in non-debt funding of $1.640 million:

- $0.900 million of debt funded savings from the *St Lawrence Centre Roof – Phase 2* project will be reallocated to seven under-funded state of good repairs projects with no impact on debt.

- Funding of $0.010 million from the Community Heritage Reserve Fund (XR1044) will be used to add improvements to the *Mackenzie House Restoration* – 2017.

- As $0.050 million is expected to be underspent for the *Outdoor Public Art – Elevated Wetlands-2018* project pending structural engineering assessment, this funding will be reallocated to the *Public Art Development Bathurst-Vaughan* project. $0.033

million for the *2017 Streetscape Master Plan Funding Program* will be reallocated to the *Path Wayfinding* project due to additional costs arising from the development of on-line map assets.

- The Bloor West Village BIA has decided to forgo City loan funding for their solar lighting project. The project cost for the 2018 *Bloor West Village* project is to be reduced by $2.350 million of loan funding, and the debt funding of $0.350 will be transferred to 2018 *Equal Share Funded Bloor West Village* project with a project cost of $0.700 million. As a result, the project cost will be reduced by of $1.650 million with no change to debt funding.

Shelter, Support & Housing Administration

An increase to the 2018 Council Approved Capital Budget for the *Fife House* project is required to provide additional funding of $0.113 million for the acquisition and renovation of 9 Huntley Street for the purpose of creating new transitional housing for individuals living with HIV/AIDS. This project is funded by a combination of Federal, Provincial and City funding in addition to fundraising efforts by Fife House. The report EX29.13, "*Creating Transitional Housing at 9 Huntley Street*" from the Director, Affordable Housing Office recommending the transfer of $0.500 million in Section 37 funds to *Fife House* project, to support the renovation of 9 Huntley Street was approved by Council at its meeting on December 5, 6, 7 and 8, 2017. An additional $0.113 million in Section 37 funds has become available and is recommended for transfer to *Fife House* to supplement its fundraising efforts.

Toronto Paramedic Services

An adjustment to the 2018 Capital Budget for Toronto Paramedic Services is required to increase funding for two capital projects:

- *Community Paramedicine Vehicle* project will increase by $0.059 million due to new grant funding received from Mississauga Halton LHIN for the acquisition of 1 emergency response vehicle (Tahoe).
- *Additional Ambulances* project will increase by $0.169 million due to new grant funding received from ORNGE for a new *Critical Care Transport Unit Ambulance*.

Waterfront Revitalization Initiative

An adjustment to the 2018 Approved Capital Budget for Waterfront Revitalization Initiative is recommended to reallocate $0.002 million from the *Precinct Implementation* project to the *Precinct Planning* project due to additional costs to refine the Harbour Street extension alignment, as required through the OMB settlement process with local landowners.

Facilities Management, Real Estate, Environment & Energy

An adjustment is required to reduce Facilities, Real Estate, Environment & Energy's 2018 Council Approved Capital Budget for the transfer of of $0.300 million, funded by debt to Information & Technology for the installation of new BAS system at 60 Tiffield. The construction budget of $1.3 million resides in Information & Technology's 2018 – 2027 Council Approved Capital Budget & Plan. The transfer will consolidate the costs in one capital project.

Fleet Services

Two (2) adjustments are required by Fleet Services to reallocate funds between *Vehicle/Equipment Replacement* sub-projects for each Toronto Public Library and Transportation respectively to offset over expenditure in advance of closing all affected sub-projects. The impact is net zero to the *Vehicle/Equipment Replacement* projects for the affected divisions/agencies and net zero impact to Fleet's 2018 Capital Budget and there is no impact on debt.

Information & Technology

Information & Technology's 2018 – 2027 Council Approved Capital Budget and Plan will increase to reflect the transfer of $0.300 million, funded by debt, from Facilities, Real Estate, Environment & Energy for the for the installation of new *Building Auto System (BAS)* at 60 Tiffield. The construction budget of $1.3 million resides in Information & Technology's 2018 – 2027 Council Approved Capital Budget & Plan.

An adjustment is required to reverse an error in the previously approved re-allocation that moved $0.485 million of unspent funding from the *ESD Portal – Building Permits* to the *Capital Portfolio Resource Requirements* project.

Information & Technology requires 3 in-year budget adjustments to release permanent underspending of $0.950 million in the *Disaster Recovery* Program, $0.250 million in the *I&T PPM Solution (Cloud) Implementation* and $0.271 million in the Shared Services sub-projects to fund each of the *Cyber Security Program*, *EDRMS* and *Consolidated Data Centre* sub-projects, respectively, with a net zero impact to Information & Technology's 2018 Capital Budget.

Toronto Transit Commission

The re-allocation of funds in the 2018 Capital Budget are required to accommodate increased cost estimates to perform condition assessments in multiple projects. This requires adjustment to the total project costs and cash flow funding estimates in order to provide the necessary funding required to deliver these projects, these reallocations have no impact on approved debt.

An adjustment is required to increase the 2018 Approved Capital Budget for the *Bicycle Parking at Stations* project by $0.130 million as recommended by the TTC Board and adopted by Council on February 12, 2018 as part of the PTIF program. This adjustment implements Council's decision and enables staff to proceed with the procurement of bicycle parking at an additional 9 TTC Stations at a cost of $0.130 million.

The report EX.25.1 from the City Manager entitled "*Advancing Planning and Design for the Relief Line and Yonge Subway Extension*" approved by Council on May 24, 2017 recommends a final adjustment to the 2018 - 2027 Capital Budget and Plan for the *TTC Transit Expansion* Projects - *Relief Line South Class 3 Estimate Development* Project. The cost for the *Relief Line South Class 3 Estimate Development* Project is estimated at $100 million, of that $55.520 million was approved by City Council on February 12, 2018 with the remaining $44.480 million to be funded by Metrolinx.

CONTACT

Josie La Vita
Executive Director, Financial Planning,
Tel: 416-397-7229
Fax: 416-397-4465
Email: Josie.LaVita@toronto.ca

Andy Cui
Manager, Financial Planning,
Tel: 416-397-4207
Fax: 416-397-4465
Email: Andy.Cui@toronto.ca

SIGNATURE

Joe Farag
Interim Chief Financial Officer

ATTACHMENTS

Appendix 1 2018 Capital Variance Summary for the three months ended March 31, 2018
Appendix 2 Capital Projects for Closure
Appendix 3 Major Capital Projects
Appendix 4 In-Year Adjustments for the three months ended March 31, 2018
Appendix 5 Capital Dashboard for Programs/Agencies
Appendix 6 Additional 2017 Carry Forward