



REPORT FOR ACTION

Capital Variance Report for the Five-Month Period ended May 31, 2018

Date: July 12, 2018

To: Executive 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 five month period ended May 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 4 completed capital projects that have a combined budget of \$10.036 million that are ready to be closed. They have been completed under budget, realizing underspending of \$0.630 million of which \$0.380 million is debt funded.

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

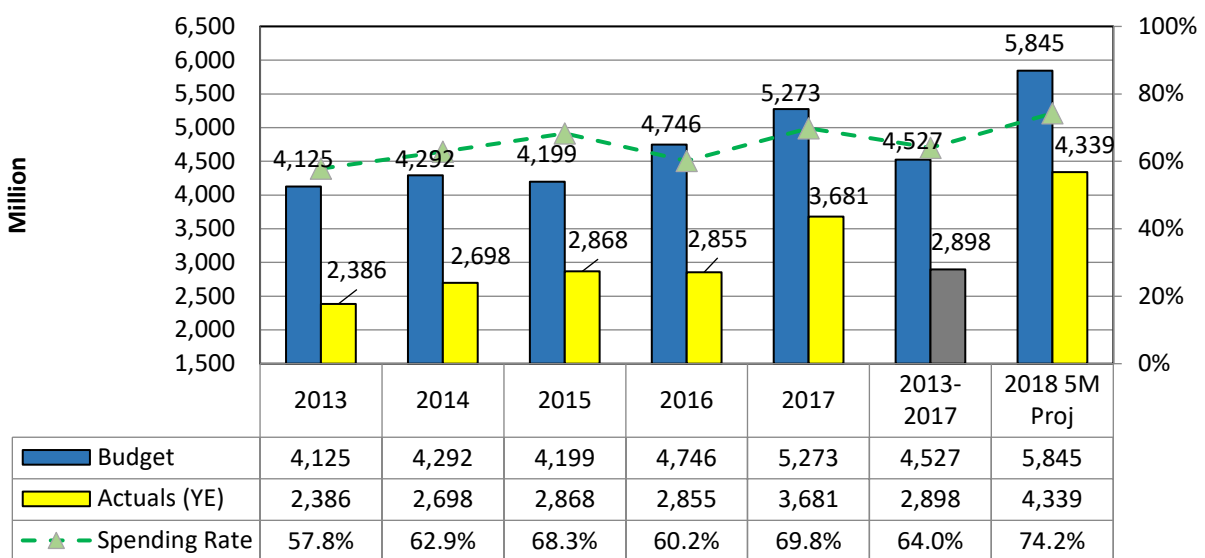
	2018 Approved Capital Budget	Actual Expenditures - January to May		Projected Actual Expenditures at Year-End	
		(\$M)	%	(\$M)	%
Tax Supported	4,664.0	691.9	14.8%	3,427.1	73.5%
Rate Supported Programs:	1,180.5	171.1	14.5%	911.5	77.2%
TOTAL	5,844.6	863.0	14.7%	4,338.6	74.2%

As detailed by City Program and Agency in Appendix 1, total expenditures for the first five months of 2018 is \$0.863 billion or 14.7% of the 2018 Council Approved Budget which is broadly in-line with the historical spending rate, which over the last 5 years has averaged 17.8%.

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. Projected capital expenditures to year-end are expected to reach \$4.339 billion or 74.2% of the total 2018 Approved Capital Budget. 20 of the 31 City Programs and Agencies have projected year-end spending rates in excess of 70%: Tax Supported Programs project a spending rate of 73.5% while Rate Supported Programs project a combined spending rate of 77.2% by year-end.

Figure 1 below compares the actual year-end spending rate in each of the years 2013 to 2017, the 5-year average from 2013 to 2017 and the projected 2018 year-end spending rate in this report.

Figure 1: 2013 – 2017 Year-End Capital Spending Rates and 2018 Projected Spending Rate



The 2018 Capital Budget of \$5.845 billion represents the **largest** Capital Budget the City has **ever** 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 \$1.834 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 spending of \$2.386 billion in 2013 to \$3.681 billion in 2017. While overall capital spending has increased annually, the spending rate, which is based on expenditures as a percentage of the approved capital budget, has not increased relative to the higher approved budget. At this point, the year-end spending rate of 74.2% for 2018 is projected to be higher than 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 Tax Supported Budget and Plan as detailed in Appendix 4 that result in no incremental impact on debt financing.
2. City Council request that all City Programs and Agencies continue to monitor capital variance and submit their respective second quarter operating variance reports to the Interim Chief Financial Officer as a continuation of the budget monitoring process during City Council recess.

FINANCIAL IMPACT

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

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

	2018 Approved Budget	Actual Expenditures - January 1 to May 31, 2018		Projected Actual Expenditures at Year-End	
		(\$M)	%	(\$M)	% of Plan
Tax Supported Programs:					
Citizen Centred Services - "A"	621.1	112.0	18.0%	499.3	80.4%
Citizen Centred Services - "B"	762.5	60.3	7.9%	522.2	68.5%
Internal Corporate Services	524.8	99.8	19.0%	373.0	71.1%
Office of the CFO	32.1	5.5	17.2%	18.8	58.8%
Corporate Initiatives	260.2	0.4	0.2%	31.4	12.1%
Other City Programs	10.0	2.5	25.0%	8.9	89.5%
Sub Total City Operations	2,210.6	280.6	12.7%	1,453.8	65.8%
TTC	2,228.2	378.9	17.0%	1,766.1	79.3%
Other Agencies	225.2	32.4	14.4%	207.2	92.0%
Sub Total - Tax Supported	4,664.0	691.9	14.8%	3,427.1	73.5%
Rate Supported Programs:					
Solid Waste Management	128.7	23.5	18.3%	73.0	56.7%
Toronto Parking Authority	105.3	3.9	3.7%	52.6	50.0%
Toronto Water	946.6	143.7	15.2%	785.9	83.0%
Sub Total Rate Supported	1,180.5	171.1	14.5%	911.5	77.2%
Total	5,844.6	863.0	14.8%	4,338.6	74.2%

Projected expenditures are anticipated to reach \$4.339 billion or 74.2% by year-end. The high projected spending rate is mainly driven by the Toronto Transit Commission, Solid Waste Management Services and Shelter, Support & Housing Administration projects.

Appendix 1 summarizes the first 5-month spending and year-end projected spending rate by City Program and Agency.

Projects to be closed

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.

Table 3 below outlines the underspending from projects that have been completed in the first 5 months of 2018.

Table 3: Completed Projects for the First 5 months of 2018

Closed Projects - First 5 months	Tax Supported Programs	Rate Supported Programs	All City Programs/ Agencies
# of Closed Projects	4	0	4
Project Budget (\$M)	10.036	0	10.036
Actual Expenditure (\$M)	9.406	0	9.406
Underspent (\$M)	0.630	0	0.630
Underspent Debt Funding (\$M)	0.380	0	0.380

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. Four capital projects were completed in the first five months of 2018 that have a combined budget of \$10.036 million. They have been completed under budget, resulting in underspending of \$0.630 million. The permanent underspending has associated funding of \$0.380 million in debt and \$0.250 in Capital from Current 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 \$5.845 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

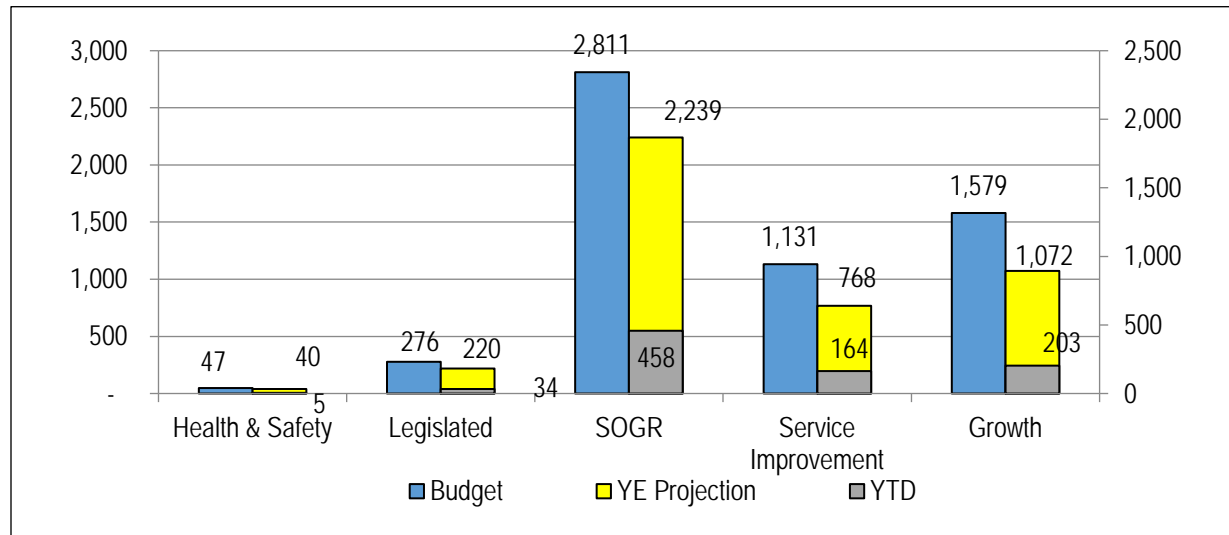
Red – Less than 50% of Budget Spent or more than 100% of Budget Spent

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.

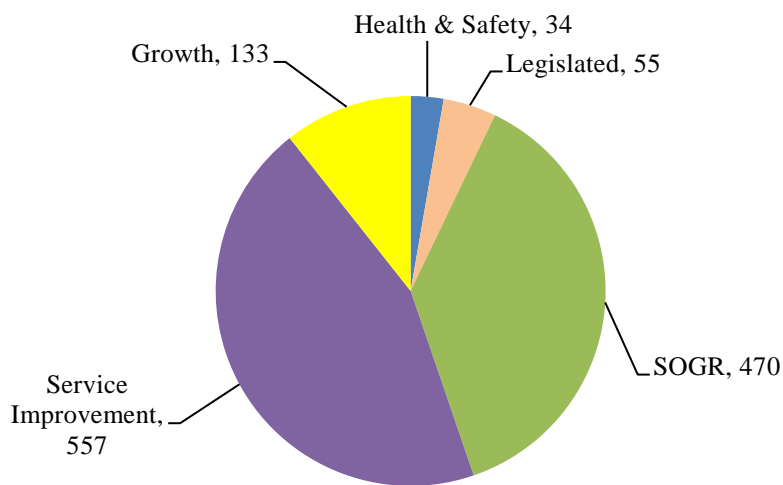
Figure 2: 2018 Approved Budget and Spending by Project Category (\$Millions)



Health & Safety and Legislated projects have the highest projected spending rate of 84.1% and 79.6% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.239 billion which is in line with the City's continued emphasis on SOGR investment but a spending rate of 79.7%. It is also anticipated that 67.9% of the approved Capital Budget allocated to Service Improvement and Growth Related projects will be spent by year-end which represent a lower spending rate than the other categories. This lower spending rate is common for these categories of projects which tend to be more complex, include various stakeholders and have dependencies on other factors.

As illustrated in Figure 3 below, the City has a total of 1,249 previously approved and new 2018 capital projects open at the end of May 2018.

Figure 3: 2018 Open Projects (1,249)



Service Improvement projects account for the majority of open projects, totalling 557 or 44.6% of total open projects while SOGR projects account for 470 or 37.6% of all open 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

Appendix 2 details 4 capital projects that have been completed in the first five months of 2018 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$10.036 million and actual expenditures of \$9.406 million. This results in permanent underspending of \$0.630 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 permanent 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, 84 capital sub-projects have been completed within 31 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 \$554.441 million and total life-to-date spending of \$306.365 million. The remaining Council approved funding of \$248.076 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, as outlined below:

Children Services

An adjustment is recommended to increase the 2018 cash flow funding for the previously approved Child Care Center #11 – Gilder & Gilder Satellite Capital project by \$0.6 million to \$1.9 million, funded through the Child Care Capital Reserve Fund (XR1103), thereby reduces the approved 2020 commitment by an equivalent amount with no impact on the total approved project cost. The adjustment is necessary to offset the costs of inflation in the construction market and provide for contingencies that may be encountered in the first phase of construction.

Economic Development & Culture

Adjustments are recommended to Economic Development and Culture's (EDC) 2018 Capital Budget which will result in an overall increase in capital project and non-debt funding of \$0.100 million:

New grant funding of \$0.100 million will allow EDC to replace the roofs on the North Soldiers' Barracks and the Blue Barracks as part of the *Fort York Restoration* project. The purchase order for the restoration of the perimeter walls at Casa Loma will be

amended to include new improvements, this will be accommodated by reallocating debt funding of \$0.113 million from the *Preventive Maintenance* project.

Civic Theatres Toronto (CTT) management has requested no capital spending take place for St. Lawrence Centre (except for the St Lawrence Centre roof) until CTT makes a decision on when the project is ready to proceed. \$0.300 million and associated debt funding will be reallocated from the *St. Lawrence Centre – Healthy and Safety to Theatre Passe Muraille* project to accommodate *accessibility* projects

Parks, Forestry & Recreation

Parks, Forestry and Recreation

Adjustments are recommended to the 2018 – 2027 Capital Budget and Plan for Parks, Forestry and Recreation to change several non-debt funding sources to allow projects to proceed and defer several debt funded project which cannot proceed in 2018 and apply that funding to previously approved projects which can proceed in 2018 faster than anticipated.

Funding of \$0.600 million for Bessarion CC –Stakeholder project be changed from the Child Care Capital Reserve Fund, which is not available, to the City-Wide Parkland Development Cash-in-lieu Reserve Fund.

- \$0.047 million of donated funds be accepted for the Rosethorn Park Playground project, and replace funding of equal value from the Section 42 Cash-in-lieu Reserve Fund.
- \$0.150 million of Section 42 Alternate Rate Cash-in-lieu funding which has not been received, for the Investigation and Pre-Engineering project be replaced by funding from the City-Wide Parkland Development Cash-in-lieu Reserve Fund to allow work to proceed to develop a better project plan and project estimates.
- \$1.000 million of 2018 debt funded work on the IT-Enterprise Work Management System project be deferred to 2019 as the project's first phase was delayed by tendering issues, resulting in the 2nd phase not proceeding as previously planned, and apply this debt funding in 2018, with \$0.425 million to complete the Milliken Park Waterplay repair and \$0.575 million to address high lake effect flooding damage at Bluffer's Park.
- \$0.350 million of donated funds for the Highview Park Accessible Baseball Field be deferred from 2018 to 2019 as an error was made in the Notice of Motion which brought this project forward.
- A total of \$0.350 million of previously approved reserve funding for the Master Planning Parks Development project and the Wilket Creek Improvement and Restoration project be advanced to 2018 from 2019 as work will be completed ahead of schedule.

Shelter, Support & Housing Administration

Adjustment to increase SSHA's 2018-2027 Capital Budget and Plan by adding a new Capital Project called "*Central Intake Call Center*" at a project cost of \$1.735 million, with cash flow funding of \$1.413 million in 2018 and \$0.161 million in 2019 and 2020 to acquire a Customer Relationship Management (CRM) suite of software and licenses to support the expansion and enhancement of SSHA's Central Intake Call Center (20 licenses) and divisional Work Force Management (800 licenses) fully funded from the Social Housing Stabilization Reserve (XQ1106).

Toronto Paramedic Services

\$0.550 million of debt funding from the *Dispatch Console Replacement* project will be permanently reallocated to the *Ambulance Radio Replacement* and *Additional Ambulances (2018)* projects, as the PS Communication Centre expansion is being deferred until the Canadian Radio-television and Telecommunications Commission sets specifications, standards and guidelines for the Next Generation 911 (NG911) system.

The project cost for the *Ambulance Radio Replacement* project will be increased by \$0.200 million, with cash flows funding being added in 2018, to fast track the replacement of old radios that are starting to fail and to buy additional radios for new vehicles. Funding will be reallocated from the *Dispatch Console Replacement* project, which has been put on hold.

The project cost for *Additional Ambulances (2018)* project will be increased by \$0.350 million, with cash flows in 2018, to offset cost overages due to inflationary cost from US/CAD foreign exchange. Funding will be reallocated from the *Dispatch Console Replacement* project, which has been put on hold.

Information & Technology

Adjustments to Information & Technology's 2018 Council Approved Capital Budget are required to fund the *Electronic Documents and Records Management System Phase 2* project and 3 identified vendor expense and license costs from permanent underspend on various projects and to fund additional needs of the *MLS Modernization Project Phase 2* project using funding that originated in *MLS Modernization Phase 1* project.

Toronto Transit Commission

The re-allocation of funds in the 2018 Capital Budget are required in order to group related project budgets to better facilitate tracking project expenditures. This requires adjustments to the total project costs and cash flow funding estimates in order to provide the necessary funding required to deliver the following projects with no impact on approved debt.

- An adjustment to the 2018 Approved Capital Budget for Toronto Transit Commission is recommended to reallocate \$0.311 million from the *Easier Access* project to the *Backflow Preventer* project in order to consolidate the budget of both projects under one project to facilitate tracking project expenditures.

- An adjustment to the 2018 Approved Capital Budget for Toronto Transit Commission is recommended to reallocate \$3.012 million from the *Streetcar Overhead - Civil Works* project to the *Surface Track Civil Works* project in order to consolidate both projects under one project to facilitate tracking project expenditures.

Solid Waste Management Services

- Technical amendments to Solid Waste Management Services' 2018 Capital Budget are recommended to enable better tracking of capital expenditures against capital budget approvals. The following recommended adjustments will not result in any financial impact in 2018:
- A new capital project entitled *Renewable Natural Gas – Green Lane Landfill* will be created by reducing the 2018 approved project cost and cash flow of \$1.376 million, funded by 70% recoverable debt and 30% from reserves from the *Landfill Gas Utilization project* at Green Lane (CSW007-13-07) This adjustment will allow for more efficient tracking of costs and allocation of budget for *Renewable Natural Gas Infrastructure* separately from the *Green Lane Landfill Development* project.
- The project cost and 2018 cash flow of \$0.500 million, funded 100% from the Waste Management Reserve Fund, for the *Dufferin Waste Facility Site Improvement project* (CSW500-17) will be transferred and consolidated with the next capital sub-project (CSW500-18) under the same project. Since capital expenditures for this project have not yet started, this adjustment will allow for a more efficient tracking of costs against the allocated budget for related capital project activities within one account.

Reallocation of Debt funding from the Bentway Pedestrian and Cycling Bridge

Adjustments to three capital budgets are required for the reallocation of debt funding currently allocated to The *Bentway Pedestrian and Cycling Bridge* project. The bridge was to be funded by debt and Public Transit Infrastructure Fund (PTIF) in the 2018 Capital Budget for the Waterfront Revitalization Initiative. Alternative sources of funding have been confirmed for the bridge and the debt funding that previously aligned with the City's share of PTIF funding will be reallocated to fund PTIF-related initiatives in the TTC. The three adjustments below are required for this recommended debt reallocation.

- **Transportation Services**

An adjustment to the 2018 Capital Budget for Transportation Services is required to transfer \$1.440 million from the *Cycling Infrastructure project*, funded by debt (\$1.181 million) and development charges (\$0.259 million), to the Waterfront Revitalization Initiative for the construction of The *Bentway Pedestrian and Cycling Bridge*.

- **Waterfront Revitalization Initiative**

With the adjustment made above, a resultant budget adjustment to the 2018 Capital Budget for the Waterfront Revitalization Initiative is required to reallocate debt funding of \$6.1 million from The *Bentway Pedestrian and Cycling Bridge* to the Toronto Transit Commission. The project will be funded by the Ontario Municipal Commuter Cycling Program of \$3.660 million, Transportation Services Cycling Infrastructure of \$1.440 million, and Section 42 funding of \$1.0 million.

- **Toronto Transit Commission**

An adjustment to increase the 2018 Capital Budget for the Toronto Transit Commission is required to transfer in \$6.1 million of debt funding that previously aligned with the City's share of PTIF funding from The *Bentway Pedestrian and Cycling Bridge* will be reallocated to fund the purchase of additional TTC buses under the PTIF program.

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SIGNATURE

Joe Farag
Interim Chief Financial Officer

ATTACHMENTS

Appendix 1 - 2018 Capital Variance Summary for the three months ended May 31, 2018
Appendix 2 - Capital Projects for Closure
Appendix 3 - Major Capital Projects
Appendix 4 - In-Year Adjustments for the five months ended May 31, 2018
Appendix 5 - Capital Dashboard for Programs/Agencies