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## 2019 CAPITAL BUDGET BRIEFING NOTE

### Unmet Capital Needs

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#### Issue/Background:

At its meeting of February 6, 2019, the Budget Committee requested that the Executive Director of Financial Planning Division submit a budget briefing note on the estimated Unmet Capital Need of the City of Toronto over 10 years, net of the Toronto Transit Commission's stated unmet needs. This briefing note responds to the Committee's request.

Capital unmet needs are defined as the capital works that cannot be accommodated within the City's debt affordability targets and/or are forecasted for a future date but are not ready to proceed and are therefore not included in the 10-year Capital Budget and Plan. This briefing note provides an estimate of the City's unmet capital needs excluding what has been identified in TTC's Capital Investment Plan. The estimates provided extend to 15 years for a more fulsome view to include some major capital projects that begin in the 10-year capital planning period but are to be completed within the next 15 years.

Given the longer-term nature of the projection, the estimates provided in this briefing note are based on the best information available at this time and both the costs and funding sources may be subject to change based on updated estimates and new information. Any revisions are updated annually through the budget process.

#### Key Points:

- The 2019 to 2028 Staff Recommended Capital Budget and Plan for tax and rate supported Programs and Agencies totals \$40.67 billion to fund capital projects that address health and safety, legislated, stage of good repair, service improvement and growth-related capital projects.
- Beyond this level of investment, the City of Toronto also maintains a list of unmet (unfunded) capital needs to account for capital priorities that have been identified by staff and/or considered, to some extent, by City Council.
  - Maintaining such a list informs long term capital planning and financing strategies.
- As part of the annual capital budgeting process since 2015, City and Agency staff are requested to submit their respective list of "below the line" or "unmet needs" to provide visibility on capital priorities that, for example:
  - Known capital needs that could not be funded due to debt affordability, such as State of Good Repair projects that will reduce the backlog;

- Capital priorities which have received some consideration or direction from Council for which planning is underway but are not ready to proceed or timed for approval later in the capital planning horizon such projects resulting from approved Environmental Assessments; masterplans or feasibility studies; and/or
- Emerging critical priorities and/or needs to leverage opportunities.
- Various strategies have been implemented to fund some portion of these unmet capital spending requirements. The strategies include maximizing non-debt funding sources and continued cash flow realignment based on capacity to deliver. Since this practice has been in place, the City has been able to fund new capital projects in addition to previously approved projects through the budgeting process.
  - Capital projects are assessed based on criticality with projects assigned to one of 8 criteria that have been established to help set priorities for determining what additional investments require funding in the 10-year Capital Plan. The following criteria are used:
    1. Over debt target due to cost escalation
    2. To ensure legislative compliance
    3. H&S/SOGR to avoid service disruption/legal claims
    4. To leverage opportunity otherwise missed
    5. Results in operating savings or cost avoidance
    6. To implement approved Council priorities
    7. SOGR projects to reduce backlog
    8. To address a sustained service demand
- The list of unmet needs is refined on an annual basis, as projects are added to the Capital Plan through project prioritization and/or additional secured funding.
- Despite these new investments added to the 10-year Capital Plan, the capital investment requirement continues to grow. This growth is driven by various factors, such as:
  - Costs to maintain the City's \$94 billion aging infrastructure in state of good repair (SOGR) continue to rise as updated information on the condition of existing assets are provided; assets are at the end of their lifecycle and new assets are added to the inventory (such as new facilities and road);
  - New capital requirements to ensure legislative compliance;
  - Capital projects to support the modernization and transformation of City service delivery;
  - Demand to improve or expand services to accommodate population and economic growth of the City requires the revitalization of existing or the addition of new facilities;
  - The identification of new City Building priorities to meet Council strategic directions, secondary plans or masterplans
  - Emerging opportunities to leverage funding opportunities from other orders of government, such as PTIF (Public Transit Infrastructure Fund) or other funding partnerships

**Estimated Unmet Capital Needs (excluding TTC)**

- It is estimated that between 2019 and 2028, the City's total unmet capital needs, as identified in the 2019 Budget process, totals approximately \$11.9 billion, requiring additional debt funding of \$8.4 billion.
  - As some of these projects beginning during this 10 year period extend into the next 5 year period, funding the total unmet capital needs up to year 2033 will be approximately \$13.6 billion, with \$8.6 billion required from debt issuance as summarized in Table 1 below.

Table 1: Estimated Unmet Capital Needs Summary (excluding TTC)

(\$Million)	10 Year Total (2019 – 2028)		5 Year Total (2029 – 2033)		15 Year Total (2019 – 2033)	
	Gross	Debt	Gross	Debt	Gross	Debt
Health and Safety	37	37			37	37
Legislated	571	370	105	69	675	439
State of Good Repair	8,273	7,265			8,273	7,265
Service Improvement	961	305			961	305
Growth Related	2,084	412	1,543	154	3,626	566
<b>Unmet Capital Needs</b>	<b>11,925</b>	<b>8,389</b>	<b>1,647</b>	<b>223</b>	<b>13,573</b>	<b>8,612</b>

- Among the \$13.6 billion unmet capital needs over the next 15 years, approximately \$8.2 billion are SOGR projects to maintain the City's assets in good working condition, \$3.6 billion are growth related projects, and \$1 billion are for service improvement.
- A detailed project list for the estimated unmet capital needs is attached to this briefing note for reference. The list provides projected gross expenditure and debt requirements for total 10 year and 15 years.

**Additional Capital Priorities Not Included in the Unmet Needs**

- Transit Expansion
  - The City's transit expansion program includes a series of projects that have been identified for implementation, for which some funding has been approved to begin initially planning work. Staff will be reporting in early Q2, 2019 on recommended priorities and updated estimates.

- Secondary, Master and Service Plans
  - The unmet needs list does not include any estimates for infrastructure that may be required to implement Council approved Secondary Plans developed for the downtown (TOCore) or midtown areas as the master planning is in progress; avenue and area revitalization studies that are underway that may identify future needs as well as the capital investments required to support future service plans.
- Emerging City-wide or Local Priorities
  - The list does not account for any capital projects for which some feasibility or planning work is underway to address a local community or City-wide need or objective but has not been identified as a formal project at this time.
- New Capital Projects Forecasted Beyond the 10-year period.
  - To date, requests of staff have been made to provide a list of unmet needs that are required within the 10 year capital planning horizon only.

The City will continue to refine the list as new opportunities emerge and will recalibrate capital plan to address the low spending rate and work with other levels of governments for additional funding sources.

Appendix: Estimated 15 Year Unmet Capital Needs 2019 - 2033

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