



REPORT FOR ACTION

Capital Variance Report for the Four Months Ended April 30, 2019

Date: June 13, 2019

To: Budget Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

The purpose of this report is to provide City Council with the City of Toronto capital spending for the four month period ended April 30, 2019, as well as projected actual expenditures to December 31, 2019. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2019 Approved Capital Budget and additional carry-forward from 2018 that have no impact on approved debt.

As illustrated in Table 1 below, 2019 the City's capital expenditure was \$748.3 million or 13.1% of the 2019 capital budget of \$5,793 billion and is projecting to expend \$4,589 billion or 79.0% by December 31, 2019.

Table 1: Capital Variance Summary

	2019 Approved Budget	Actual Expenditures - 4M YTD		2019 Approved Budget	Projected Expenditures - January to December	
	\$M	\$M	%	\$M	\$M	%
City Operations	2,074	212	10.2%	2,074	1,555	75.0%
Agencies	2,593	393	15.5%	2,533	2,056	78.8%
Subtotal - Tax Supported	4,607	605	13.1%	4,607	3,551	77.1%
Rate Supported	1,126	144	12.7%	1,126	977	86.7%
TOTAL	5,793	748	13.1%	5,733	4,589	79.0%

The spending pattern for the first quarter is typically within 10% of the total Council Approved Capital Budget. Tax Supported Programs project a spending rate of 77.1% while Rate Supported Programs project a spending rate of 86.7% 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.

The report also details the 46 completed capital projects that have a combined budget of \$66.861 million that are ready to be closed. They have been completed under budget, realizing underspending of \$6.501 million. The permanent underspending which has associated funding of \$0.468 million in capital from current, \$0.339 million in debt, \$4.114 million in reserves/reserve funds, \$0.264 million in Recoverable Debt, \$0.115 million in Development Charges and \$1.2 million in other Revenue will be returned to their original funding sources.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Council approve in-year budget adjustments to the 2019-2028 Approved Capital Budget and Plan as detailed in Appendix 4 that result in no incremental impact on debt financing.
2. Council approve additional 2018 carry forward funding for TTC and Go Transit as detailed in Appendix 6
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

Total capital expenditure in the first four months of 2019 total \$748.3 million and year-end expenditures are anticipated to increase to \$4.589 billion or 79.0% of the total 2019 Approved Capital budget. 24 of the 32 City Programs and Agencies have projected year-end spending rate in excess of 70%.

Appendix 1 summarizes the spending in the first four months 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.

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. 46 capital projects were completed in the first four months of 2019 that have a combined budget of \$66.861 million. They have been completed under budget,

with permanent underspending of \$6.501 million realized. The permanent underspending has associated funding of \$0.468 million in capital from current, \$0.339 million in debt, \$4.114 million in reserves/reserve funds, \$0.264 million in Recoverable Debt, \$0.115 million in Development Charges and \$1.2 million in other Revenue.

DECISION HISTORY

At its meeting of January 28, 2018, Council approved a 2019 Rate-Supported Capital Budget of \$896.4 million and on March 7, 2018, Council approved a 2018 Tax Supported Capital Budget of \$2.985 billion. The 2018 Rate-Supported Capital Budget provides \$797.1 million for Toronto Water, \$27.7 million for Toronto Parking Authority and \$39.6 million for Solid Waste Management Services. Reflecting Carry Forward and in-year budget adjustments for all City Tax and Rate Programs and Agencies, the adjusted Capital Budget for 2018 is currently \$5.793 billion.

COMMENTS

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the four months ended April 30, 2019 for major service clusters.

Table 2: Capital Variance Summary

	2019 Approved Budget	2019 Actual January to April		2019 Approved Budget	2019 Projected YE Expenditures	
	\$M	\$M	%	\$M	\$M	%
Tax Supported Programs:						
Community and Social Services	660	50	7.5%	660	512	77.5%
Infrastructure and Development Services	839	108	12.9%	839	643	76.6%
Corporate Services	462	50	10.8%	462	296	64.1%
Finance and Treasury Services	24	3	14.2%	24	16	68.9%
Corporate Initiatives	82	0	0.3%	82	82	99.7%
Other City Programs	7	1	12.8%	7	6	91.5%
Sub Total City Operations	2,074	212	10.2%	2,074	1,555	75.0%
TTC	2,346	364	15.5%	2,346	1,852	79.0%
Agencies	247	29	11.6%	247	204	82.5%
Sub Total - Tax Supported	4,667	605	13.0%	4,667	3,611	77.4%
Rate Supported Programs:						
Solid Waste Management	91	6	6.6%	91	60	66.4%
Toronto Parking Authority	84	3	3.9%	84	69	82.5%
Toronto Water	952	134	14.1%	952	847	89.1%
Sub Total Rate Supported	1,126	144	12.7%	1,126	977	86.7%
Total	5,793	748	12.9%	5,793	4,589	79.2%

City Programs and Agencies project year-end capital expenditures of \$4.589 billion or 79.0% of the 2019 Approved budget. The projected spending rate in 2019 is driven broadly by major capital spending programs and agencies such as Toronto Transit Commission (TTC), Toronto Water and Transportation Services.

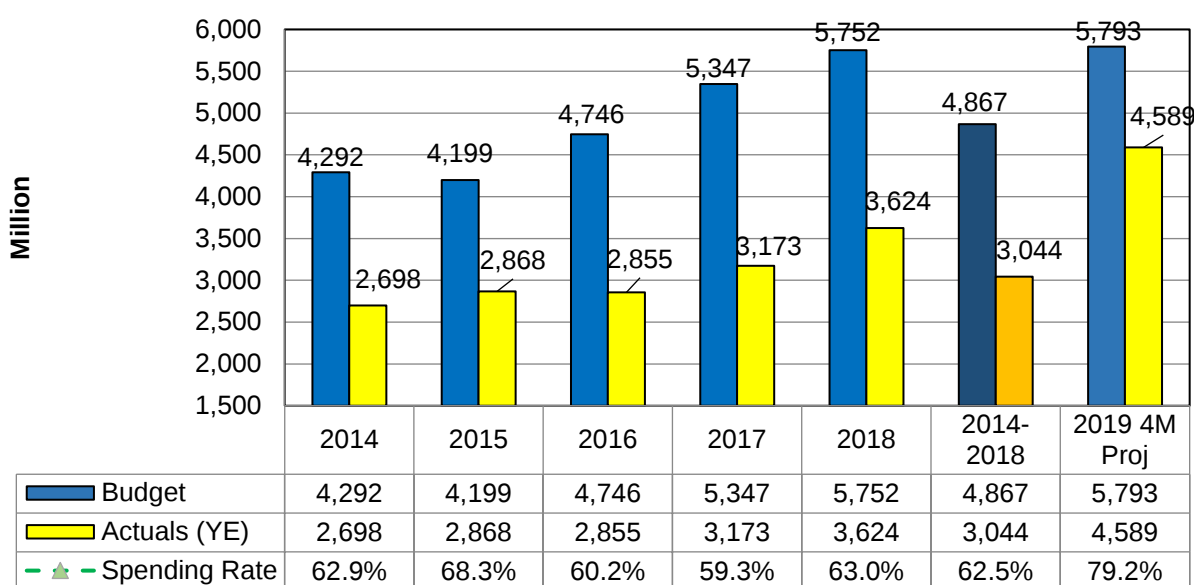
TTC is projecting to spend \$1.852 billion or 79.0% of its 2019 Approved Capital Budget. The largest expenditures are expected to be on the Transit Expansion Projects (\$441.1 million), the purchase of buses (\$325.3 million) and purchase of Streetcars (\$331.6 million).

Toronto Water is projecting to spend \$847.3 million or 89.1% of its 2019 Approved Capital Budget. The largest expenditures are expected to be on *Don & Waterfront Trunk/CSO project* (\$173.1 million), *Dist W/M replacement project* (\$87.1 million) and *Ashbridges Bay WWTP - Effluent system project* (\$68.8 million).

While Transportation Services is on track with most of its major projects including its biggest projects, the *F.G.Gardiner project*, *Local and Major Road Rehabilitation projects* and *City Bridge Rehabilitation projects* with projected expenditures of \$148.1 million, \$107.3 million and \$56.0 million respectively. As a result Transportation Services is expected to spend 77.8% of its Approved 2019 Capital Budget

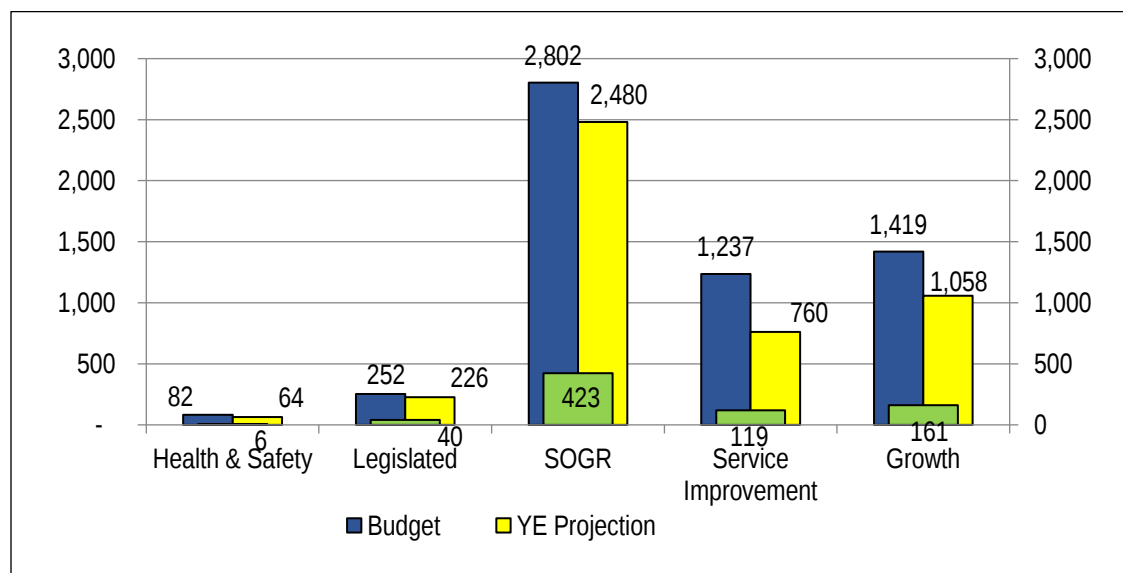
Figure 1 in the following page compares the actual year-end spending rate in each of the years 2014 to 2018, showing the 5 year average from 2014 to 2018, and the projected 2019 year-end spending rate detailed in this report. Spending rate is the actual capital spending amount as a percentage of the full year budget including in-year adjustments and carry forward from prior years' unspent budget.

Figure 1: 2014 - 2018 and 2019 Projected Capital Spending Rate



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 2 below compares the 2019 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2019 Approved Budget and Spending by Project Category (\$Millions)



Legislated and State of Good Repair (SOGR) projects have the two highest projected spending rate of 89.6% and 88.5% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.480 billion which is in line with the City's continued emphasis on SOGR investment. Health & Safety and Growth Related projects have the next highest projected spending rate of 77.4% and 74.6% respectively. It is also anticipated that about 60% of the approved Capital Budget allocated to Service Improvement projects will be spent by year-end which represent a lower spending rate than the other categories. This lower spending rate is common for this category of projects which tend to be more complex, include various stakeholders and have dependencies on other factors.

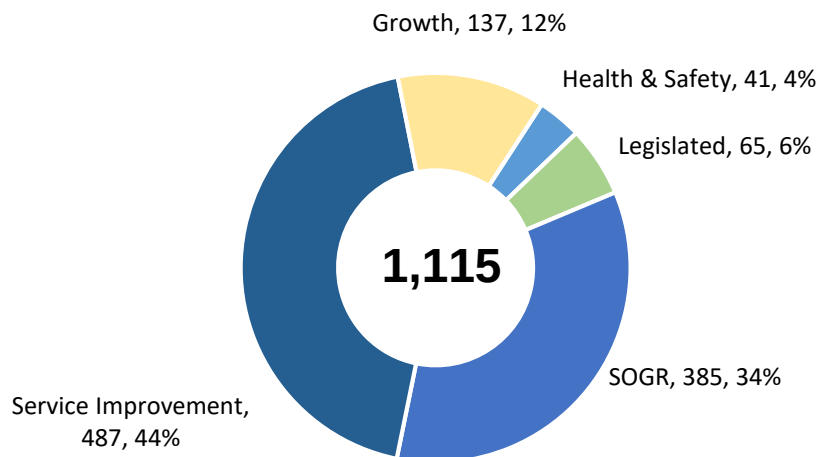
Table 5 below outlines 2019 City's capital expenditure and spending rate by project category.

Table 5: City Budget and Projected Spending by Project Category

Project Category (\$M) - 4M	Budget	YTD Actual	YE Projection	Spending Rate
Health & Safety	82	6	64	77.4%
Legislated	252	40	226	89.6%
SOGR	2,802	423	2,480	88.5%
Service Improvement	1,237	119	760	61.5%
Growth	1,419	161	1,058	74.6%
Total	5,793	748	4,589	79.2%

As illustrated in Figure 3 in the following page, the City has a total of 1,115, previously approved and new 2019 capital projects, open at the end of the fourth month of 2019.

Figure 3: 2019 Open Projects



Service Improvement projects account for the majority of open projects totalling 487 or 44% of the total City's capital projects. SOGR projects account for 385 or 34% of all capital projects.

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 in first four months of 2019

Closing of completed capital projects in a timely manner identifies underspending and allows funding to be returned to its original source to be reinvested in future budgets. Accounting Services staff will ensure that all expenditures for the identified capital projects/sub-projects are appropriately accounted for prior to closure.

Appendix 2 details 46 capital projects from the Tax Supported Programs that have been completed in the third quarter of 2019 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$66.861 million and actual expenditures of \$60.361 million. This results in permanent underspending of \$6.501 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 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.

Recommended In-Year Budget Adjustments

City Council approval is required for in-year budget adjustments detailed in Appendix 4. It is recommended that Council approve the following in-year adjustments, as outlined below:

Economic Development & Culture

Adjustments are recommended to the Economic Development and Culture (EDC) 2019 Capital Budget which will result in an overall increase in project cost and non-debt funding (deferred revenue) of \$0.046 million:

New funding approved in 2018 for the St. Lawrence Centre for the Arts was transferred from EDC to TO Live during the 2019 capital budget process. Debt funding of \$0.300 million in the St. Lawrence Centre AODA project was part of EDC's original debt target and will be transferred to the following projects:

Goulding Massey Estate AODA - \$0.080 million to address accessibility improvements
Fort York Restoration - \$0.150 million for *roof replacement Preventive Maintenance* – \$0.070 million to undertake Building Condition Audits.

Due to a review of spending priorities and needs, Colborne Lodge Gallery will be deferred as it has not yet started. Funding will be required once the timeline has been decided and will be included as part of the 2020-2030 Capital Budget and Plan. Debt funding of 0.190 million will be reallocated to a new project, *Capital Planning Project*, which will allow EDC to begin planning for 2020 projects and \$0.030 million to Preventive Maintenance.

The Outdoor Public Art – Salmon Run requires additional funding of \$0.050 million to support electrical work and lighting improvements. Funding of \$0.004 million (debt) and \$0.046 million (Culture Public Art Maintenance Trust Fund) will be transferred from the *Outdoor Public Art – Sundial Folly* project to support this project.

To increase public consultation for the *Museum of Toronto Planning Study*, an additional \$0.046 million is required and will be funded from deferred revenue that is available on EDC's balance sheet.

Parks, Forestry & Recreation

Parks, Forestry and Recreation (PFR) requires the acceleration of \$3.870 million in debt funding from 2020 to 2019 in order to award tenders for construction that exceeds the available budget and plan for the Capital Asset Management Program for the State of Good Repair for the Arenas FY2018-2020 capital project in the amount of \$2.295 million

and the *Special Facilities* (SF) Building & Structures FY2020-2021 capital project in the amount of 1.575 million. This repair is scheduled for completion in 2019 and deferral of this work would negatively impact the PFR SOGR backlog.

This acceleration can be fully offset by the deferral of \$3.870 million in debt funding from 2019 to 2020 for the *Ferry Boat Replacement* No 1 capital project as the *Ferry Boat Replacement* analysis by KPMG has deferred completion of the design. The tender of the *ferry boat replacement* cannot proceed until the design is completed and as a result this cash flow will not be spent in 2019.

Shelter, Support & Housing Administration

A request to amend Shelter, Support and Housing Administration's 2018 - 2027 Capital Budget and Plan to increase the total project cost and approved 2019 cash flows for the "Temporary Structures for Respite Services" project (CHS 047) by \$1.625 million, fully funded through a permanent reallocation from the, "New Emergency Shelters" (CHS 044) capital project to fund additional site preparation and rectification work necessary to complete the construction of the two structures to be located at 351 Lakeshore Boulevard East and 701 Fleet Street as detailed in report EC3.7 "Amendment to BLT Construction Services Inc. Purchase Order N. 6047316 for the procurement and construction of temporary respite facilities" and adopted by the Economic and Community Development Committee at its meeting on April 3, 2019.

Waterfront Revitalization Initiative

A technical amendment to the funding sources for the *Precinct Implementation Project* is required to adjust the funding from the Development Charges Reserve Fund – Roads & Related to Development Charges Reserve Fund – Parks & Recreation. The next phase of this project is to fund the development of *East Bayfront Community Centre* with joint efforts from Parks, Forestry and Recreation.

Through the report Quayside – Update EX6.1, the review of the Quayside Master Innovation and Development Plan to be submitted by Sidewalk Labs requires funding of \$0.800 million. Project costs and cash flow will be re-allocated from Precinct Implementation Projects to create a new project, Quayside Review, fully funded by debt with cash flows in 2019. The project will fund the review process, public consultation, research, and analysis.

Facilities, Real Estate, Environment & Energy

A funding source adjustment is required as there are insufficient funds in the Section 45 contributions from the development at 70 Temperance Street. As an alternative, Section 37 contributions from the development at 20-26 Lombard Street and 25 Richmond Street East have been identified to fund \$0.414 million of the redevelopment of the St. Lawrence Market North building.

A technical adjustment is required for a Low Carbon Thermal Energy Network project as funds that were initially committed by the Ministry of Environment and Climate Change were clawed back during the 2018 cancellation of the Municipal GHG Challenge

funding. As a result, \$0.512 million of funding and project costs are to be reduced from the project.

Through an external developer, a contribution of \$0.101 million was secured to fund the installation of a signal system for a truck ramp at Union Station.

A technical adjustment of \$1.394 million to the *Union Station Revitalization Project* is required as there was a posting error in 2017 that resulted in inaccurate cash flow balances in SAP. The posting has been corrected and this adjustment will correct the budget in SAP. There are no changes or impact to the overall project cost with this adjustment.

Information & Technology

An adjustment is recommended to Information and Technology's 2019-2028 Capital Plan to effect the transfer of the *Toronto Property System project* from City Clerk's Office to Information & Technology effective January 2019, in recognition that the stakeholders for this project include many divisions across the City: Funding of \$0.553 million will be transferred from City Clerk's *Toronto Property System* to a new project to be set up in Information & Technology.

City Clerk's Office

An adjustment is recommended to the City Clerk's Office 2019-2028 Capital Plan to effect the transfer of the *Toronto Property System* project from City Clerk's Office to Information & Technology effective January 2019, in recognition that the stakeholders for this project include many divisions across the City: Funding of \$0.553 million will be transferred from City Clerk's *Toronto Property System* to a new project to be set up in Information & Technology.

Corporate initiatives

An adjustment is recommended to defer \$5.0 million from 2019 to 2021 for the *Eglinton West Project* due to the need to adjust the project plan to support the current work-plan schedule.

Toronto Police Service (TPS)

TPS is requesting Council authority to accelerate and defer cash flow funding of \$1.300 million gross and debt which will have no impact on the total approved projects costs and debt over the 10-year period.

- An adjustment is recommended to accelerate the cash flow funding of \$1.300 million gross and debt for the *Radio Lifecycle Replacement project* from 2020 to 2019. This additional funding will enable TPS to work with the telecommunication service provider to migrate the radios to the latest version of the Association of Public-Safety Communications Officials (A.P.C.O) standards which allows for more radios to operate simultaneously. The older radios are not capable of this method of

operation. The acceleration will be offset by the equivalent deferral of \$1.300 million gross and debt cash flow funding for the previously approved *The 12 Division Renovation project* from 2019 to 2020 as the project is on hold until a pilot project for *Traffic Services and Parking Enforcement* is complete and more information becomes available for the preferred locations and other requirements. This budget adjustment will result in zero debt impact and the project costs remain unchanged for both capital projects.

Toronto Public Library

A reduction of the cash flow funding of \$0.913 million gross and debt to the 2019 Council Approved Capital Budget for the previously approved *Bayview-Bessarion Library project* is required. It is recognized that an expenditure of \$0.913 million has already been incurred during 2018 when the project was progressing ahead of schedule. This budget adjustment will result in zero impact to the total project cost.

Toronto Transit Commission (TTC)

Adjustments to accelerate and defer cash flow funding to leverage underspending to advance work on a number of projects is recommended. The requested adjustments will have no impact on TTC's total approved projects costs and debt over the 10-year period.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2019 Capital Variance and Projection Summary for the four months ended April 30, 2019

Appendix 2 Capital Projects for Closure

Appendix 3 Major Capital Projects

Appendix 4 In-Year Adjustments for the four months ended April 30, 2019

Appendix 5 Capital Variance Dashboard by Program and Agency

Appendix 6 Additional Carry Forward Funding by Project