



REPORT FOR ACTION

Capital Variance Report for the Six Months Ended June 30, 2019

Date: August 22, 2019
To: Budget Committee and Executive 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 six month period ended June 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 that have no impact on 2019 approved debt.

As illustrated in Table 1 below, City's 2019 capital expenditure was \$1.326 billion or 22.9% of the 2019 capital budget of \$5.788 billion for the period ended June 30, 2019 and is projecting to expend \$4.220 billion or 72.9% by December 31, 2019.

Table 1: Capital Variance Summary

	2019 Approved Budget	Actual Expenditures - January to June		Projected Expenditures - January to December	
	\$M	\$M	%	\$M	%
City Operations	2,070	358	17.3%	1,305	63.1%
Agencies	2,592	654	25.2%	1,917	74.0%
Subtotal - Tax Supported	4,662	1,012	21.7%	3,222	69.1%
Rate Supported	1,126	315	27.9%	997	88.5%
TOTAL	5,788	1,326	22.9%	4,220	72.9%

The spending pattern for the first half of the year is typically around 20% of the total Council Approved Capital Budget.

Total City projected spend of 72.9% by year-end is comprised of a Tax Supported Programs spending rate of 69.1% and a Rate Supported Programs spending rate of 88.5%. 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 45 completed capital projects that have a combined budget of \$143.4 million that are ready to be closed. They have been completed under budget, realizing underspending of \$8.6 million.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City 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.

FINANCIAL IMPACT

The capital expenditures in the first six months of 2019 total \$1.326 billion and year-end expenditures are anticipated to increase to \$4.220 billion or 72.9% of the total 2019 Approved Capital budget. 17 of the 33 City Programs and Agencies have projected year-end spending rate in excess of 70%.

Appendix 1 summarizes the spending in the first six 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. 45 capital projects were completed in the first six months of 2019 that have a combined budget of \$143.4 million. They have been completed under budget realizing a permanent underspending of \$8.7 million. The permanent underspending has associated funding of \$3.8 million in capital from current, \$0.9 million in debt, \$0.4 million in Development Charges, \$3.5 million in reserves/reserve funds and \$0.1 million in other Revenue.

DECISION HISTORY

At its meeting of March 7, 2019, Council approved a 2019 Rate Supported Capital Budget of \$861 million and 2019 Tax Supported Capital Budget of \$2.897 billion. With the carry-forward funding of \$265 million for Rate Supported Programs and \$1.765 billion of carry-forward funding for Tax Supported Programs the adjusted 2019 Council Approved Capital Budget totals \$5.788 billion.

COMMENTS

Table 2 below outlines capital spending for Tax and Rate Supported Programs for the six months ended June 30, 2019 for major service areas.

Table 2: Capital Variance Summary

Table 2 Corporate Capital Variance Summary for the Period Ended June 30, 2019					
	2019 Approved Budget	Actual Expenditures - January to June		Projected Expenditures - January to December	
	\$M	\$M	%	\$M	%
Tax Supported Programs:					
Community and Social Services	658	130	19.7%	414	62.9%
Infrastructure and Development Services	835	146	17.5%	579	69.4%
Corporate Services	463	74	15.9%	278	60.1%
Finance and Treasury Services	24	5	21.4%	11	45.7%
Corporate Initiatives	84	2	2.4%	18	21.0%
Other City Programs	6	1	20.2%	5	83.4%
Sub Total City Operations	2,070	358	17.3%	1,305	63.1%
TTC	2,346	610	26.0%	1,721	73.4%
Agencies	246	44	17.8%	196	79.4%
Sub Total - Tax Supported	4,662	1,012	21.7%	3,222	69.1%
Rate Supported Programs:					
Solid Waste Management	91	13	13.9%	56	61.1%
Toronto Parking Authority	84	8	9.6%	52	62.1%
Toronto Water	952	294	30.9%	890	93.5%
Sub Total Rate Supported	1,126	315	27.9%	997	88.5%
Total	5,788	1,326	22.9%	4,220	72.9%

City Programs and Agencies project year-end capital expenditures of \$4.220 billion or 72.9% 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:

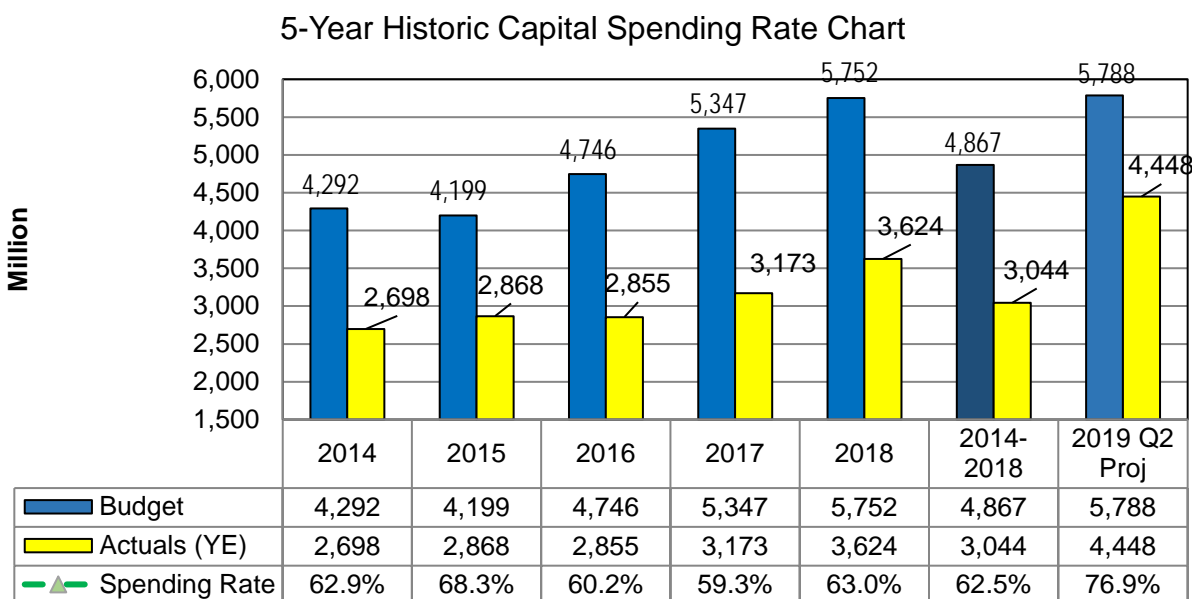
TTC is projecting to spend \$1.721 billion or 73.4% of its 2019 Approved Capital Budget. The largest expenditures are expected to be on *the purchase of buses* (\$327.7 million) and *purchase of Streetcars* (\$331.6 million).

Toronto Water is projecting to spend \$889.6 million or 93.5% of its 2019 Approved Capital Budget. The largest expenditures are expected to be on *Don & Waterfront Trunk/CSO project* (\$83.9 million), *Watermain Structural Lining* (\$48.5 million), *Overall construction* (\$40.0 million), *Dist Watermain replacement project* (\$39.4 million) and *disinfection System Construction project* (\$35.0 million).

Transportation Services is on track with most of its major projects including some of its biggest projects: the *F.G. Gardiner project* (\$128.8 million), *Local and Major Road Rehabilitation projects* (\$88.2 million) and *City Bridge Rehabilitation projects* (\$47.8 million). As a result Transportation Services is projected to spend \$450.7 million or 68.4% 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.

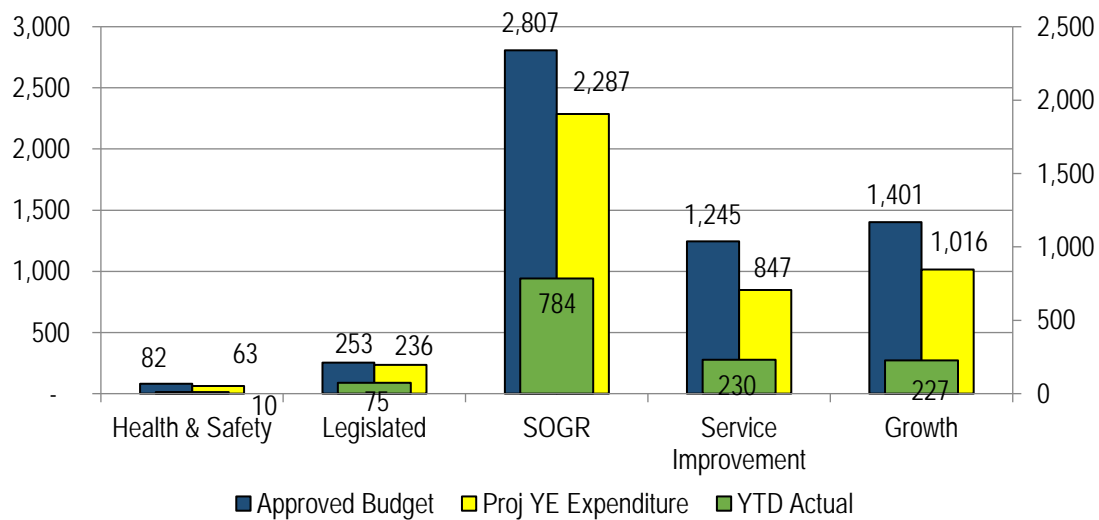
Figure 1: 2014 - 2018 and 2019 Projected Capital Spending Rate



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 in the following page 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 93.4% and 79.8% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.241 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 73.9% and 59.8% respectively. It is also anticipated that about 67.8% 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.

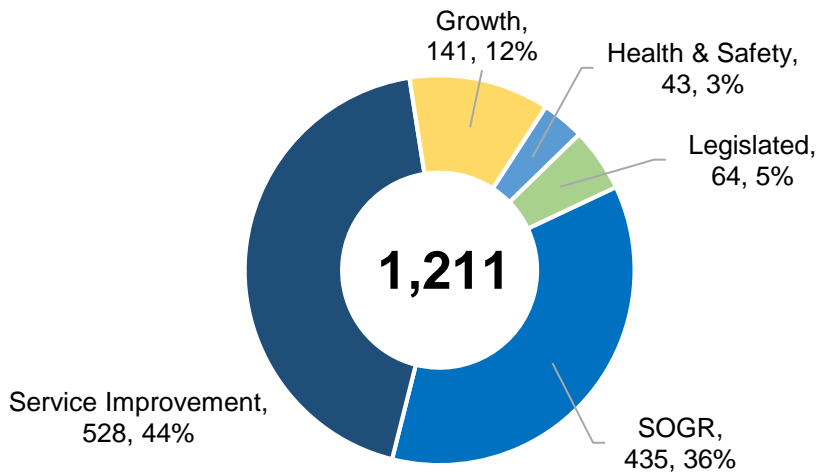
Table 5 below outlines 2019 City's capital expenditure and spending rate by project category.

Table 5: City Budget and Projected Spending by Project Category

(\$Million)- Q2	Approved Budget	YTD Actual	Proj YE Expenditure	Projected YE Rate
Health & Safety	82	10	60	73.9%
Legislated	253	75	236	93.4%
SOGR	2,807	784	2,241	79.8%
Service Improvement	1,245	230	844	67.8%
Growth	1,401	227	837	59.8%
	5,788	1,326	4,220	72.9%

As illustrated in Figure 3 below, the City has a total of 1,211, previously approved and new 2019 capital projects, open at the end of June of 2019.

Figure 3: 2019 Open Projects



Service Improvement projects account for the majority of open projects totalling 528 or 44% of the total City's capital projects. SOGR projects account for 435 or 36% 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 six 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 45 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 \$143.4 million and actual expenditures of \$134.8 million. This results in permanent underspending of \$8.6 million.

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 for future use consistent with funding eligibility.
- 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 for future use.
- 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 and Culture

Adjustments are recommended to the Economic Development and Culture (EDC) 2019 Capital Budget which will result in an overall decrease in cash flow funding of \$0.7 million:

- To address neighborhood concern, the *Casa Loma Exterior – Phase 9b* project requires a project cost and cash flow funding of \$0.2 million (funded from Casa Loma Reserve Fund) in 2019 to erect a privacy fence and pave the area between the Stables at the north campus and the adjacent neighbours.
- Debt funding of \$0.9 million for *Museum & Heritage Services IT Infrastructure* project will be transferred from EDC to Information & Technology (IT). IT will take over the ownership of this project and will provide the additional funds needed from its capital budget to delivery this project as part of the modernization initiative for EDC.

Toronto Paramedic Services

An adjustment is recommended to amend Paramedic Service's 2019 Council Approved Capital Budget to increase the total project cost and approved 2019 cash flows for the "*Additional Ambulance*" project (CAM 069) by \$0.6 million, fully funded through Ministry of Health and Long-Term Care grant funding in excess of the funding included in the approved 2019 cash flows. This adjustment will create a new sub-project (CAM069-05), "*Additional Ambulances (2019 – Sick Kids)*", to which the funding will be allocated to purchase 2 fully equipped ambulances dedicated to the Sick Kids Hospital.

City Planning

The following adjustments to City Planning's Capital Budget and Plan are recommended to better align the 2019 cash flow with the expected project delivery dates:

- An adjustment of \$0.8 million to defer 2019 cash flows to 2020 for the *Civic Improvements – Places* project as a result of delays from site conditions and resolving tender requirements.
- An adjustment of \$0.3 million to defer 2019 cash flows to 2020 for Transportation & Transit studies as a result of resolving tender requirements.

Corporate Real Estate Management (CREM)

CREM requires the deferral of \$7.6 million in reserve funding (\$4.9 million from Capital Financing Reserve Fund, \$2.8 million from Provincial Offences Courts Stabilization Fund) from 2019 to 2022 to align cash flows with projected spending for the *Redevelopment of the St. Lawrence Market North Building* capital project based on the revised scheduling of work from the new general contractor. The construction contract was re-tendered last year resulting in a delay of approximately twelve months. Cash flows were adjusted as part of Q3 2018 Operating Variance Report, but require further adjustment to reflect the current schedule.

Fleet Services

A reallocation is required to the Fleet Services 2019 Capital Budget which does not impact the overall project cost

- A feasibility study was conducted to determine the full scope of the project and concluded one larger fuel site upgrade would be more effective than three smaller upgrades. To do this, we need to consolidate the multiple subproject funding into one main project. No impact to overall project cost.
- Management decision to procure a mobile service unit servicing heavy vehicles instead purchasing tools & equipment for heavy vehicle repairs would better meet the needs of the clients. Consolidating where project cash flows need to be transferred to a vehicle purchase project for Fleet Services (CFL055-19). No impact to overall project cost.

Information and Technology

Adjustments are recommended to the Information & Technology (I&T) 2019 Capital Budget for the following:

- To effect the transfer of project delivery of the "*Economic Competiveness Data Management System*" (CSE 014-02) project from the Economic Development & Culture's Office (EDC) to Information & Technology. Funding of \$0.9 million, representing the initial project budget, will be transferred from EDC's Economic Competiveness Data Management System to a new project to be set up in I&T. Additional funding will be requested for the project subsequent to the initial transfer.

- To reallocate project cost and 2019 cash flow totalling \$1.0 million to the "*Enterprise Collaboration Foundation*" (CIT 045-24) project to enable scope changes requiring the procurement of hardware and services associated with privacy and security assessments. Funding will be provided through a permanent reallocation of \$0.9 million from the "*Disaster Recovery*" (CIT030-04-05) project which no longer requires the funds as a result of undergoing strategic realignment within the program, and \$0.2 million from the "*File Services Migration*" (CIT 047-09) project which no longer requires the funds based on a scope review.

Toronto Public Health

A request to amend Toronto Public Health's 2019 - 2028 Capital Budget and Plan to increase the total project cost and approved 2019 cash flows for the *Dental & Oral Health Information Systems* project by \$0.1 million (from \$0.4 million to \$0.5 million). This will be fully funded through a permanent reallocation from the Relocation of the *Scarborough Dental Clinic* (CPH008-01) capital project, to fund scope changes related to higher costs of vulnerability and threat risk assessments and an Organizational Change Management resource position necessary to aid in the successful adoption of the in-scope system by end users. A substantial portion of the Relocation of the *Scarborough Dental Clinic* project was completed at the end of April with construction costs coming in lower than anticipated. This project is currently in a closeout phase with a total project cost of \$1.262 million and is projected to have an available remaining balance of \$0.217 million in 2019.

Toronto Transit Commission

The TTC is requesting Council Authority to reallocate permanent funding savings in order to advance work on a number of projects requiring additional funding. The requested adjustments will have no impact on the 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 Six Months ended June 30, 2019
Appendix 2 Capital Projects for Closure
Appendix 3 Major Capital Projects
Appendix 4 In-Year Adjustments for the Six Months ended June 30, 2019
Appendix 5 Capital Variance Dashboard by Program and Agency