

Capital Variance Report for the Five Months Ended May 31, 2020

Date: July 7, 2020

To: 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 five month period ended May 31, 2020, as well as projected expenditures to December 31, 2020. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2020 Approved Capital Budget and Plan that have no impact on 2020 approved debt.

As illustrated in Table 1 below, City's 2020 capital expenditure was \$1.032 billion or 22.3% of the 2020 capital budget of \$4.635 billion for the period ended May 31, 2020 and is projecting to expend \$3.844 billion or 82.9% by December 31, 2020

Table 1: Capital Variance Summary

	2020 Approved Budget*	Actual Expenditures - January to May		Projected Expenditures - January to December	
	\$M	\$M	%	\$M	%
City Operations	1,926	375	19.5%	1,571	81.5%
Agencies	1,348	384	28.5%	1,139	84.5%
Subtotal - Tax Supported	3,274	759	23.2%	2,710	82.8%
Rate Supported	1,361	274	20.1%	1,134	83.3%
TOTAL	4,635	1,032	22.3%	3,844	82.9%

*Note: Includes 2019 carry forward funding and 2020 in-year adjustments

The Capital spending pattern for the first quarter typically ranges between 5.4% and 13.1% of the total Council Approved Capital Budget compared to 22.3% spend as of five months. Total City projected spend of 82.9% by year-end is comprised of a Tax Supported Programs spending rate of 82.8% and a Rate Supported Programs spending rate of 83.3%.

Projected underspending by year-end totals \$791 million or 17.1% of the 2020 Capital Budget. Approximately half of the projected year-end variance reflects underspending attributed to COVID-19 impacts.

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.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve in-year budget adjustments to the 2020-2029 Approved Capital Budget and Plan as detailed in Appendix 2 that result in no incremental impact on debt financing.

FINANCIAL IMPACT

The capital expenditures in the first five months of 2020 total \$1,032 billion and year-end expenditures are anticipated to increase to \$3,844 billion or 82.9%% of the total 2020 Approved Capital budget. 19 of the 36 City Programs and Agencies have projected year-end spending rate in excess of 70%.

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

DECISION HISTORY

City Council approved the 2020 Rate-Supported Capital Budget of \$1.365 billion (meeting of December 17 & 18, 2019) and the 2020 Tax Supported Capital Budget of \$3.100 billion (meeting of February 19, 2020).

COMMENTS

Table 2 in the following page outlines capital spending for Tax and Rate Supported Programs for the Five Months Ended May 31, 2020 for major service areas.

Table 2: Capital Variance Summary

Table 2 Corporate Capital Variance Summary for the Period Ended May 31, 2020					
	2020 Approved Budget	2020 Actual January to May		2020 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
Tax Supported Programs:					
Community and Social Services	683	92	13.4%	548	80.2%
Infrastructure and Development Services	696	124	17.8%	618	88.9%
Corporate Services	494	155	31.5%	385	78.0%
Finance and Treasury Services	14	3	19.8%	8	61.0%
Corporate Initiatives	36	0	0.3%	8	22.4%
Other City Programs	4	1	22.1%	3	81.9%
Sub Total City Operations	1,926	375	19.5%	1,571	81.5%
TTC	1,016	315	31.0%	915	90.0%
Transit Expansion	73	17	22.8%	74	100.4%
Agencies	258	52	20.1%	151	58.3%
Sub Total - Tax Supported	3,274	759	23.2%	2,710	82.8%
Rate Supported Programs:					
Solid Waste Management	97	13	13.1%	53	54.9%
Toronto Parking Authority	77	10	12.5%	39	50.7%
Toronto Water	1,187	252	21.2%	1,042	87.8%
Sub Total Rate Supported	1,361	274	20.1%	1,134	83.3%
Total	4,635	1,032	22.3%	3,844	82.9%

City Programs and Agencies project year-end capital expenditures of \$3.844 billion or 83.0% of the 2020 Approved budget. The projected spending rate in 2020 is driven broadly by major capital spending Programs and Agencies such as TTC, Toronto Water, Shelter Support & Housing Administration and Transportation Services:

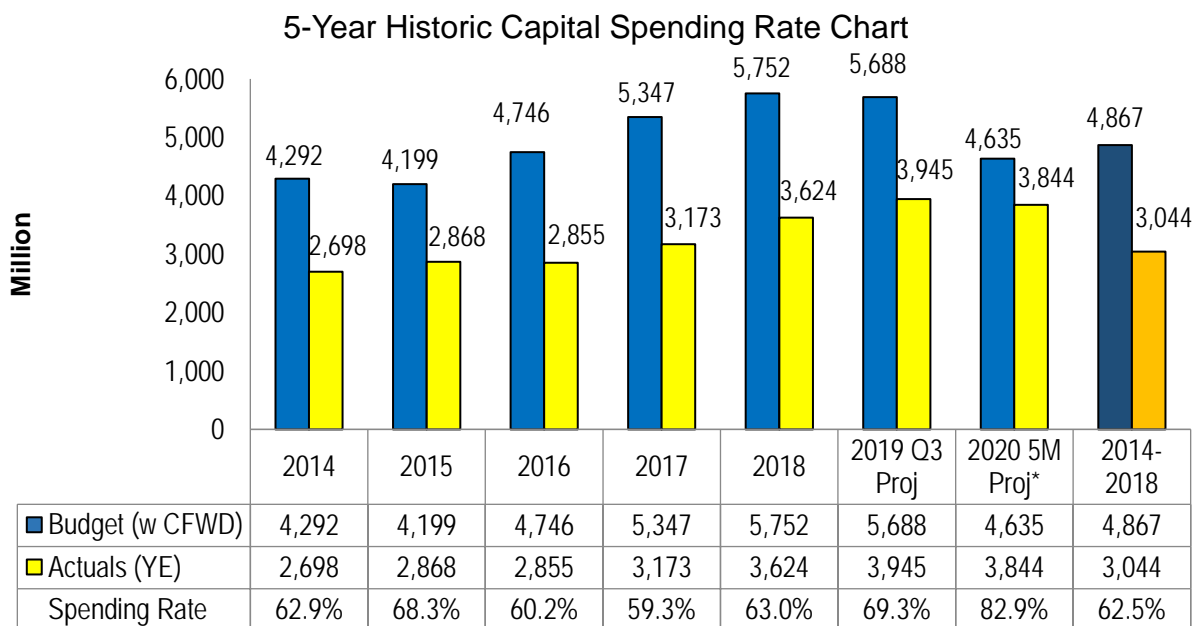
TTC (Base Programs) is projecting to spend \$914.8 million or 90.0% of its 2020 Approved Capital Budget. The largest expenditures are expected to be on the *Purchase of Streetcars* (\$74.4 million), *Computer Equipment and Software -SOG* (\$73.1 million), *Easier Access - Phase III* (\$65.2 million) and *ATC Resignalling - YUS Line* (\$63.0M).

Toronto Water is projecting to spend \$1.042 billion or 87.8% of its 2020 Approved Capital Budget. The largest expenditures are expected to be on *Dist Watermain replacement project* (\$99.4 million), *Ashbridges Bay WWTP - Effluent System Project* (\$95.6 Million), *the Basement Flooding Relief project* (\$91.7 Million) and *Don & Waterfront Trunk/CSO project* (\$76.1 million),

Transportation Services is on track with most of its major projects including some of its biggest projects: the *F.G. Gardiner project* (\$103.3 million), *Local and Major Road Rehabilitation projects* (\$100.9 million) and *City Bridge Rehabilitation Critical projects* (\$39.8 million). As a result Transportation Services is projected to spend \$416.7 million or 89.0% of its approved 2020 Capital Budget.

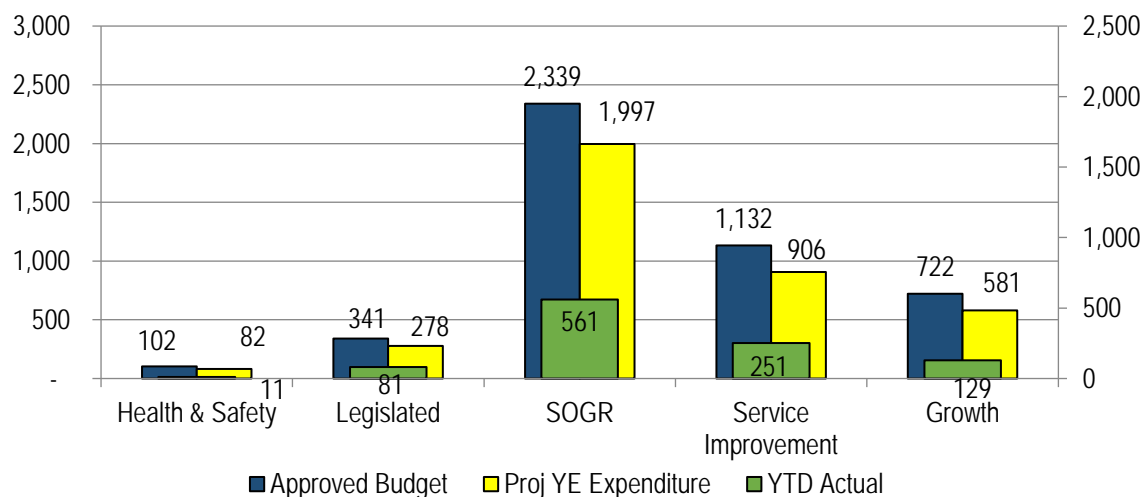
Figure 1 below compares the actual year-end spending rate in each of the years 2014 to 2018, showing the 5 year average from 2014 to 2018, and the projected 2019 year-end spending rate and projected 2020 year-end spending rate detailed in this report. Spending rate is the actual capital spending amount as a percentage of the full year budget including in-year adjustments and carry forward from prior years' unspent budget.

Figure 1: 2014 - 2018 Spending, 2019 and 2020 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 2020 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2020 Approved Budget and Spending by Project Category (\$Millions)



Legislated and State of Good Repair (SOGR) projects have the two highest projected spending rate of 81.6% and 85.4% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$1.997 billion which is in line with the City's continued emphasis on SOGR investment. Health & Safety has the next highest projected spending rate of 80.4%. It is also anticipated that about 80.1% of the approved Capital Budget for Service Improvement and 80.5% of Growth related projects will be spent by year-end. 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.

- Underspending attributed to COVID-19 primarily impact repair and maintenance of the City's capital infrastructure. As a result, the City can expect increased future costs driven by the resulting growth in the backlog of state of good repair work.

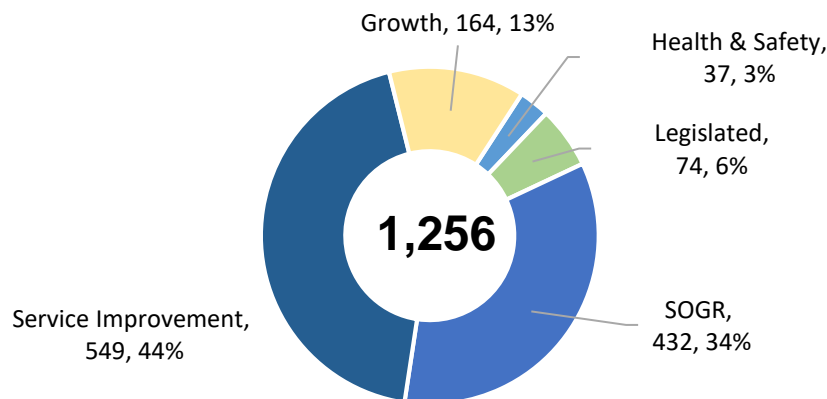
Table 5 below outlines 2020 City's capital expenditure and spending rate by project category.

Table 5: City Budget and Projected Spending by Project Category

(\$Million)	Approved Budget	YTD Actual	Proj YE Expenditure	Projected YE Rate
Health & Safety	102	11	82	80.4%
Legislated	341	81	278	81.6%
SOGR	2.339	561	1.997	85.4%
Service Improvement	1.132	251	906	80.1%
Growth	722	129	581	80.5%
Total	4.635	1.032	3.844	82.9%

As illustrated in Figure 3 below, the City has a total of 1,256 open capital projects at the end of 5 months of 2020.

Figure 3: 2020 Open Projects



Service Improvement projects account for the majority of open projects totalling 549 or 44% of the total City's capital projects. SOGR projects account for 432 or 34% of all capital projects.

Further details on the progress of all approved capital projects for each City Program and Agency can be found in Appendix 3 of this report.

Recommended In-Year Budget Adjustments

City Council approval is required for in-year budget adjustments detailed in Appendix 2. 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's (EDC) 2020 Capital Budget which will result in an overall increase in cash flow funding of \$0.670 million, fully funded from the Capital Financing Reserve (XQ0011) and Section 37 funds, to better realign 2020 and beyond with EDC capital program requirements:

- To address urgent active roof leaking damage in the *Windfields Estate Restoration*, the project requires acceleration of cash flow funding of \$0.400 million from 2021 to 2020. Overall, the project cost remains unchanged. To offset the acceleration, an equivalent amount from the *Assembly Hall Mechanical* and the *Theatre Passe Muraille* projects will be deferred to 2021.
- To proceed with pre-construction work in 2020, acceleration of \$0.320 million in Section 37 funding from 2021 to 2020 for the *PAR St. Lawrence Market*

Neighborhood project is required prior to tendering process for construction. Overall, the project cost remains within approved budgeted amount.

- Assignment fee of \$0.250 million had been collected by the Toronto Parking Authority from a developer. This funding has been transferred to the Capital Financing Reserve (XQ0011) to fund an increase of \$0.250 million in project cost and cash flow funding for the *Downtown Yonge BIA Special Project*.
- To begin the design of the Dufferin Gateway Corner in 2020, the *PAR Wilson Village BIA project* requires an increase in project cost and cash flow funding in 2020 of \$0.100 million funded from Section 37 funds.

Corporate Real Estate Management

Additional funding of \$1.760 million in recoverable debt with cash flow commitments in 2020 are required to account for the inclusion of the HST non-recoverable portion for the total cost of a strategic property acquisition in the current year, as approved by City Council at its meeting on October 29, 2019 through staff report EX9.6 Property Acquisition for Strategic City Building. The capital project was added to Corporate Real Estate Management's (CREM's) 2019-2029 Council Approved Capital Budget and Plan under the Strategic Property Acquisition 2019 project (CCA226-08), which did not take into account the net of HST recoveries portion that is non-refundable to the City.

Fleet Services

Adjustments are recommended to the Fleet Services 2020 Capital Budget for the following:

- To reallocate project cost and 2020 cash flow totalling \$0.150 million to the *Fleet Office Modernization Plan – 2019* (CFL060-19) project to complete the work and allow for a more flexible work environment that is collaborative and ergonomically friendly. Funding will be provided through a permanent reallocation of \$0.070 million from the *Fleet – Tools & Equipment – 2018* (CFK053-18) project, \$0.025 million from the *Fleet Garage Security – 2018* (CFL054-18) project and \$0.088 million from the *Car Share Technology on City Vehicles – 2019* (CFL057-19) which no longer require the funds as a result of permanent underspend.

Technology Services

Adjustments are recommended to the Technology Services Division's 2020 Capital Budget for the following:

To permanently reduce project cost and 2020 cash flow totalling \$8.714 million to adjust funding requirements to align with corrected Accounting. Funding will be reduced from the "Business Continuity Management" (CIT030-04-06) project in the amount of \$0.424 million, from the "Risk Management Framework" (CIT046-01-07) project in the amount of \$0.505 million and from the "Information Security Program" (CIT046-13-02) in the amount of \$7.724 million.

City Clerk's Office

Adjustment is recommended to reduce the City Clerk's 2020 Council Approved Capital Budget which will result in an overall decrease in project cost and 2019 cash flow funding of \$0.358 million, which include

Reduced funding to Voting Equipment Replacement - option study which no longer requires the funds based on contract with vendor and expected requirements, Reduced funding to City Hall Registry Counter Refresh as project is considered a part of the City Hall project and Reduced funding to Council Transition Requirements 2017 due to loss of second year cash flows.

Toronto Public Library

A reduction of the cash flow funding of \$0.170 million gross and withdrawal from Development Charges Reserve Fund (XR2115) to the 2020 Council Approved Capital Budget for the previously approved *Dawes Road* project is required. It is recognized that an expenditure of \$0.170 million has already been incurred during 2019 when the project was progressing ahead of schedule. This budget adjustment will result in zero impact to the total project cost.

Solid Waste Management Services

SWMS Infrastructure and Resource Management is seeking to amend the 2020 Approved Capital Budget and 2021-2029 Capital Plan to better align the cash flow with capital delivery and project requirements for Green Lane Landfill projects and the projects for the Long Term Waste Management Strategy.

For Green Lane projects, \$1.729 million in cash flow plan is being re-allocated from subprojects for *Site Services/Cover/Stormwater* and *Buffer Land Acquisition* to subprojects for *Waste Cell Excavation and Base Construction*.

Within the Long Term Waste Management Strategy, \$0.538 million is being re-allocated to the project for *Extended Producer Responsibility Transition*. This will facilitate the Division's priorities to secure external expertise to assist the Extended Producer Responsibility (EPR) Transition Team to analyze, develop, and execute the Council approved transition strategy. The plan will focus on the development and implementation of business changes related to a future provincial regulation that will transfer the responsibility of managing the recycling program from the City to producers.

The adjustments will have a zero dollar impact on the 2020 Capital Budget and will align the budget and plan with the Division's capital project delivery schedule and project requirements.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2020 Capital Variance and Projection Summary for the Five Months Ended May 31, 2020
Appendix 2 In-Year Adjustments for the Five Months Ended May 31, 2020
Appendix 3 Capital Variance Dashboard by Program and Agency