

Capital Variance Report for the Six Months Ended June 30, 2020

Date: September 9, 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 six month period ended June 30, 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 \$1.340 billion or 28.9% of the 2020 capital budget of \$4.637 billion for the period ended June 30, 2020 and is projecting to expend \$3.934 billion or 84.8% by December 31, 2020.

Table 1: Capital Variance Summary

	2020 Approved Budget*	Actual Expenditures - January to June		Projected Expenditures - January to December	
	\$M	\$M	%	\$M	%
City Operations	1,925	501	26.0%	1,580	82.1%
Agencies	1,352	462	34.2%	1,188	87.9%
Tax Supported	3,277	963	29.4%	2,768	84.5%
Rate Supported Programs:	1,361	377	27.7%	1,166	85.7%
TOTAL	4,637	1,340	28.9%	3,934	84.8%

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

The Capital spending pattern for the first six month typically ranges between 15% and 22% of the total Council Approved Capital Budget, with the 2020 experience of 28.9% comparing favourably to past experience. Total City projected spend of 84.8% by year-end is comprised of a Tax Supported Programs spending rate of 84.5% and a Rate Supported Programs spending rate of 85.7%.

Projected underspending by year-end totals \$703 million or 15.2% of the 2020 Capital Budget. Approximately half of the projected year-end variance reflects underspending attributed to COVID-19 impacts.

- At the onset of COVID-19, due to the uncertainty of the financial impact and the amount of financial assistance from other levels of government, capital projects funded by Capital from Current (CFC) were slowed to enable potential offsets to COVID-19 financial impacts.
 - Given the continued uncertainty regarding the allocation that Toronto will receive of future phase Safe Restart Agreement funding, CFC funded capital projects will continued to be slowed to the end of the year. Impacted capital projects will be reassessed as part of the 2021 budget process.

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 4 that result in no incremental impact on debt financing.

FINANCIAL IMPACT

The capital expenditures in the first six months of 2020 total \$1.340 billion and year-end expenditures are anticipated to increase to \$3.934 billion or 84.8%% of the total 2020 Approved Capital budget. 21 of the 37 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.

DECISION HISTORY

City Council approved the 2020 Rate-Supported Capital Budget of \$1.361 billion (meeting of December 17 & 18, 2019) and the 2020 Tax Supported Capital Budget of \$3.277 billion (meeting of February 19, 2020), with totals reflecting adjustments and

amendments to the Capital Plans approved during the City Council meeting of July 21, 2020.

COMMENTS

Table 2 in the following page outlines capital spending for Tax and Rate Supported Programs for the Six Months Ended June 30, 2020 for major service areas.

Table 2: Capital Variance Summary

Table 2 Corporate Capital Variance Summary for the Period Ended June 30, 2020					
	2020 Approved Budget	2020 Actual January to June		2020 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
Tax Supported Programs:					
Community and Social Services	688	134	19.4%	569	82.6%
Infrastructure and Development Services	685	182	26.6%	608	88.8%
Corporate Services	498	180	36.3%	384	77.1%
Finance and Treasury Services	14	3	24.3%	8	60.1%
Corporate Initiatives	36	0	0.6%	8	22.4%
Other City Programs	4	1	29.9%	3	87.2%
Sub Total City Operations	1,925	501	26.0%	1,580	82.1%
TTC	1,016	377	37.1%	954	93.9%
Transit Expansion (TTC)	77	20	26.3%	76	99.6%
Other Agencies	259	65	25.2%	158	60.9%
Sub Total - Tax Supported	3,277	963	29.4%	2,768	84.5%
Rate Supported Programs:					
Solid Waste Management	97	13	13.2%	49	50.5%
Toronto Parking Authority	77	9	11.5%	39	50.4%
Toronto Water	1,187	355	29.9%	1,079	90.9%
Sub Total Rate Supported	1,361	377	27.7%	1,166	85.7%
Total	4,637	1,340	28.9%	3,934	84.8%

City Programs and Agencies project year-end capital expenditures of \$3.934 billion or 84.8% 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 \$953.8 million or 93.9% of its 2020 Approved Capital Budget. The largest expenditures are expected to be on the, *Easier Access - Phase III (\$73.4 million)*, *Purchase of Buses -SOGR (\$69.4 million)*, *Purchase of Streetcars (\$69.1 million)* and *Computer Equipment and Software -SOGR (\$67.6 million)*

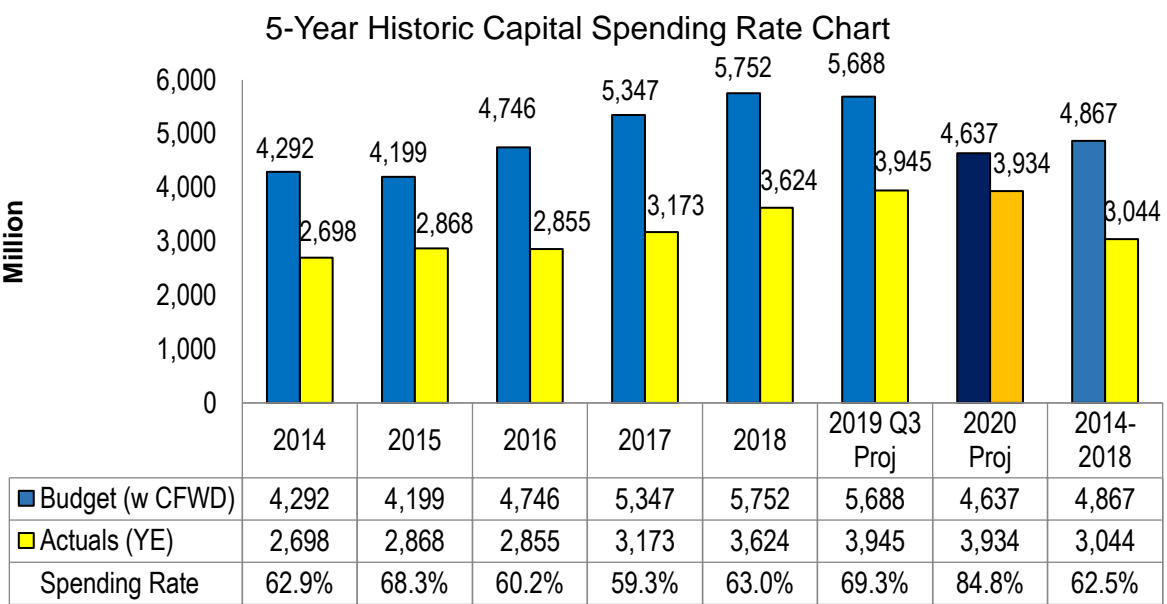
Toronto Water is projecting to spend \$1.079 billion or 90.9% of its 2020 Approved Capital Budget. The largest expenditures are expected to be on *the Basement Flooding*

Relief project (\$99.1 Million), Dist Watermain replacement project (\$97.4 million), Ashbridges Bay WWTP - Effluent System Project (\$90.4 Million) and Don & Waterfront Trunk/CSO project (\$81.0 million).

Transportation Services is on track with most of its major projects including some of its biggest projects: the F.G. Gardiner project (\$92.3 million), Local and Major Road Rehabilitation projects (\$103.4 million) and City Bridge Rehabilitation Critical projects (\$37.6 million). As a result Transportation Services is projected to spend \$405.8 million or 88.7% of its approved 2020 Capital Budget.

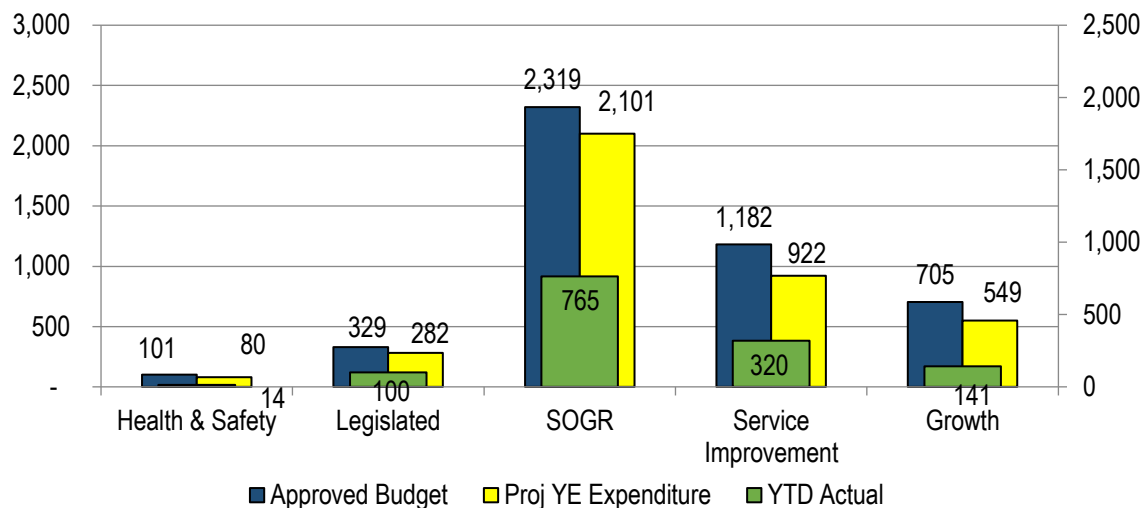
Figure 1 below compares the actual year-end spending rate in each of the years 2014 to 2018, showing the 5 year average from 2014 to 2018, and the projected 2019 year-end spending rate and projected 2020 year-end spending rate detailed in this report. Spending rate is the actual capital spending amount 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 85.4% and 90.6% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.101 billion which is in line with the City's continued emphasis on SOGR investment. Health & Safety has the next highest projected spending rate of 79.2%. It is also anticipated that about 78.0% of the approved Capital Budget for Service Improvement and 77.9% 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.

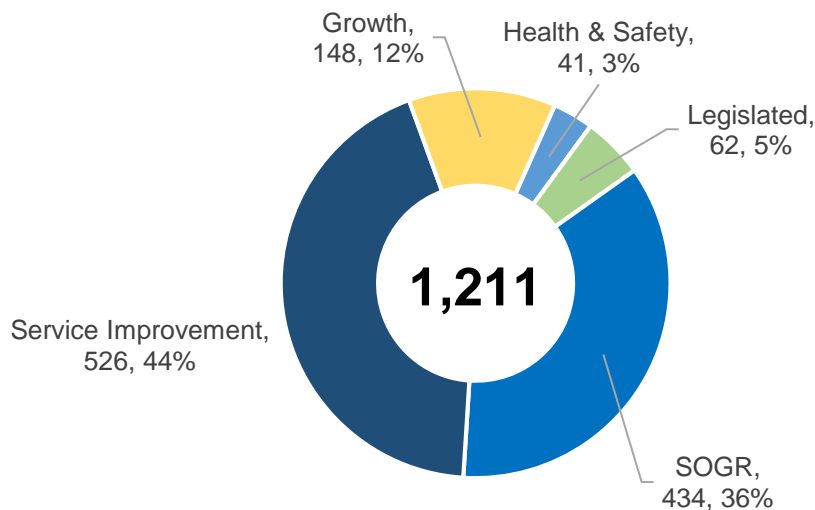
Table 3 below outlines 2020 City's capital expenditure and spending rate by project category.

Table 3: City Budget and Projected Spending by Project Category

(\$Million)	Approved Budget	YTD Actual	Proj YE Expenditure	Projected YE Rate
Health & Safety	101	14	80	79.2%
Legislated	329	100	282	85.4%
SOGR	2,319	765	2,101	90.6%
Service Improvement	1,182	320	922	78.0%
Growth	705	141	549	77.9%
Total	4,637	1,340	3,934	84.8%

As illustrated in Figure 3 below, the City has a total of 1,211 open capital projects at the end of 6 months of 2020.

Figure 3: 2020 Open Projects



Service Improvement projects account for the majority of open projects totalling 526 or 44% of the total City's capital projects. SOGR projects account for 434 or 36% 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 5 of this report.

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

Adjustment is recommended to the Economic Development and Culture's (EDC) 2020 Capital Budget which will result in an overall increase in cash flow funding of \$0.100 million, fully funded from Section 37 funds:

- To ensure the project proceed in a timely manner, acceleration of \$0.100 million in Section 37 funding from 2021 to 2020 for the Public Art Development – 11 Wellesley project is required in order to process payments for the fabrication of the artwork to be installed in the park. Overall, the project cost remains within approved budgeted amount.

Shelter, Support and Housing Administration

Adjustment to increase the project cost and 2020 cash flow of Phase 1 of Modular Homes Project (CHS052) by \$0.839 million, fully funded from the Development Charges Reserve Fund for Affordable Housing DCRF (XR2116). The project cost increase is based on actual costs reflecting local market conditions and unknown site conditions. Since these modular housing units will be the first to be delivered in Toronto, the initial project of \$20.9 million for Phase 1 was based on best information available at the time. There is sufficient funding in the DCRF to support this request.

Parks, Forestry and Recreation

An adjustment is recommended to the 2020 Capital Budget and Plan for Parks, Forestry and Recreation to change the funding source for the Wells Hill Lawn Bowling Clubhouse / Wychwood Renovation project from Section 42 Above 5% Cash-in-Lieu funds to the South District Parkland Development Cash-in-Lieu Reserve Fund, in the amount of \$0.095 million.

In addition, \$0.900 million in project cost was previously approved for the West Acres Recreation Centre Redevelopment project. A technical adjustment is required to include prior year unspent cash flow funding of \$0.286 million in 2020 and \$0.274 million in future year commitments in order to proceed with the restoration of the parking area due to the demolition of the site.

Corporate Real Estate Management

Additional funding of \$1.997 million in recoverable debt with cash flow commitments in 2020 are required for the inclusion of land transfer tax to the total cost of a land purchase, 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 land transfer tax.

Technology Services

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

- To reallocate project cost and 2020 cash flow totalling \$0.750 million from the "eTime Scheduling Enterprise Rollout" project (CIT045-36-02) which no longer requires the funds to the "Cloud Based Human Resources Information System (CHRIS)" project (CIT048-14-01) to complete final stabilization activities that were delayed due to COVID-19.
- To reallocate project cost and 2020 cash flow totalling \$0.041 million from the "Domino Decommission" project (CIT045-21-01) for which funds are no longer required due to COVID-19 to the "TO Connect" project (CIT047-11-01) to enable resources to continue work in providing free Wi-Fi in City-owned locations.

- To reallocate 2021 cash flow totalling \$0.850 million from the "Internal Private Cloud Services" project (CIT047-12-01) to 2020 to accelerate procurement of IBM Cloud Pak that will support digital transformation within the City. Cash flows are offset by deferring 2020 cash flows totalling \$0.850 million from the "Electronic Service Delivery Portal - Building Permits" project (CIT045-08-04) to 2021 that is being re-evaluated.

Toronto Transit Commission

Toronto Transit Commission is seeking to amend the 2019 and 2020 Approved Capital Budgets and its respective 10-year plans to better align the cash flow with capital delivery and project requirements for various projects as well correcting duplicating entries that were processed during 2019. The budget adjustments are a result of savings from the advancement of construction contracts and opportunities taken to accelerate or defer work based on timing and scheduling and will not impact its respective annual Capital Budget.

Solid Waste Management Services

The In-Year Adjustment for Solid Waste Management Services mainly includes an adjustment of \$10.420 million related to a contract extension for Cell Excavation work at Green Lane. It is recommended to reallocate \$10.420 million in cash flow funding from the capital project for Landfill Gas Utilization (CSW007-13-07) to the capital project for Green Lane Cell Excavation & Base Construction (CSW007-12-05) due to insufficient funding.

This adjustment involves a \$3.000 million reallocation from 2020 as well as advancing future year cash flow commitments from 2021 in the amount of \$5.000 million and from 2022 in the amount of \$2.420 million from CSW007-13-07. This total re-allocation of \$10.420 million will be moved to CSW007-12-05 in 2020. It should be noted that any further necessary adjustments will be made to the project for Landfill Gas Utilization (CSW007-13-07) as part of the 2021 Budget Submission to ensure ongoing required funding for this project.

Further recommended in-year adjustments totalling \$0.073 million are within the project for Transfer Station Asset Management (CSW361) to move required funding for estimated various project completions from 2020 to future years.

Fire Services

To increase the project cost for the Fire Prevention – Office Space Accommodation project (3 Dohme), CFR130-01 by \$0.045 million, as additional funds are required to deliver this project in accordance with the specifications identified in the RFP to be awarded to Cambria Design Build for interior building renovations; the additional funding requirements are to be offset by the 2020 projected underspending from the Toronto Radio Infrastructure Project (TRIP), CFR138-01.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2020 Capital Variance and Projection Summary for the Six Months Ended June 30, 2020
Appendix 2 Capital Projects for Closure
Appendix 3 Major Capital Projects
Appendix 4 In-Year Adjustments for the Six Months Ended June 30, 2020
Appendix 5 Capital Variance Dashboard by Program and Agency