

Capital Variance Report for the Nine Months Ended September 30, 2021

Date: November 19, 2021

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 nine month period ended September 30, 2021, as well as projected expenditures to December 31, 2021. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2021 Approved Capital Budget and Plan.

As illustrated in Table 1 below, City's 2021 capital expenditure was \$1.917 billion or 36.4% of the 2021 capital budget of \$5.267 billion for the period ended September 30, 2021 and is projecting to expend \$4.076 billion or 77.4% by December 31, 2021.

Table 1: Capital Variance Summary

Table 1 Corporate Capital Variance Summary for the Period Ended September 30, 2021					
	2021 Approved Budget	2021 Q3 Actual Expenditures		2021 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
City Operations	2,162	719	33.3%	1,439	66.6%
Agencies	1,641	471	28.7%	1,357	82.7%
Tax Supported	3,802	1,190	31.3%	2,796	73.5%
Rate Supported Programs:	1,465	728	49.7%	1,280	87.4%
TOTAL	5,267	1,917	36.4%	4,076	77.4%

**Note: Includes 2020 carry forward funding*

The Capital spending pattern for the first nine months typically ranges between 32% and 48% of the total Council Approved Capital Budget, with the 2021 experience of 36.4%. The total City projected spend of 77.4% by year-end is comprised of a Tax Supported Programs spending rate of 73.5% and a Rate Supported Programs spending rate of 87.4%.

Moving forward, the City will continue to plan annual capital projects in line with both affordability and achievability, based on the historical actual capacity. The strategy is

expected to build on improvements experienced to date and also improve capital spend rate in future years; fully utilizing approved funding and enabling any excess funding capacity to support additional capital priorities.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve in-year budget adjustments to the 2021-2030 Approved Capital Budget and Plan as detailed in Appendix 4.

FINANCIAL IMPACT

The capital expenditures in the first nine months of 2021 total \$1.917 billion and year-end expenditures are anticipated to increase to \$4.076 billion or 77.4% of the total 2021 Approved Capital budget. 16 of the 38 City Programs and Agencies have projected year-end spending rate in excess of 70%.

Appendix 1 summarizes the YTD spending in the first nine months of 2021; and the projected year-end spending rate by City Programs and Agencies.

Appendix 4 includes recommended in-year capital budget adjustments to the 10-Year Capital Plan, which includes a \$34.9 million cash flow reduction in 2021 and \$22.5 million cash flow addition in 2022 – 2030. The net impact is a cash flow reduction of \$12.4 million to the 10-Year Capital Plan.

DECISION HISTORY

City Council approved the 2021 Rate-Supported Capital Budget of \$1.437 billion (meeting of December 16, 2020) and the 2020 Tax Supported Capital Budget of \$3.699 billion (meeting of February 18, 2021).

This report is provided pursuant to financial management best practices and budgetary control. As part of the City of Toronto's financial accountability framework, quarterly and year-end operating variance reports are submitted to Committees and City Council, to provide financial monitoring information on operating results to date and projections to year-end, and on an exception basis, to identify issues that require direction and/or decisions from City Council. In addition, City Council's approval is requested for budget adjustments that amend the Approved Capital Budget and Plan between projects in accordance with the Financial Control By-Law and the City's financial management policies.

COMMENTS

Table 2 outlines capital spending for Tax and Rate Supported Programs for the Nine Months Ended September 30, 2021 for major service areas.

Table 2: Capital Variance Summary

Table 2 Corporate Capital Variance Summary for the Period Ended September 30, 2021					
	2021 Approved Budget	2021 Q3 Actual Expenditures		2021 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
Tax Supported Programs:					
Community and Social Services	921.5	324.5	35.2%	646.4	70.1%
Infrastructure and Development Services	642.5	269.0	41.9%	481.1	74.9%
Corporate Services	500.1	119.8	23.9%	292.3	58.4%
Finance and Treasury Services	79.2	3.5	4.4%	9.7	12.3%
Corporate Initiatives	3.4	0.1	1.7%	1.5	44.8%
Other City Programs	15.0	2.0	13.5%	7.6	50.4%
Sub Total City Operations	2,161.8	718.9	33.3%	1,438.7	66.6%
TTC	1,280.7	375.4	29.3%	1,076.4	84.0%
Transit Expansion (TTC) *	95.3	13.6	14.2%	78.3	82.2%
Other Agencies	264.5	81.9	31.0%	202.3	76.5%
Sub Total - Tax Supported	3,802.3	1,189.7	31.3%	2,795.6	73.5%
Rate Supported Programs:					
Solid Waste Management	81.5	27.7	34.0%	60.0	73.6%
Toronto Parking Authority	52.5	9.2	17.4%	14.0	26.7%
Toronto Water	1,330.6	690.8	51.9%	1,206.1	90.6%
Sub Total Rate Supported	1,464.6	727.6	49.7%	1,280.1	87.4%
Total	5,266.9	1,917.4	36.4%	4,075.7	77.4%

* Due to technical reasons, Q2 results and projections are used for TTC

City Programs and Agencies project year-end capital expenditures of \$4.076 billion or 77.4% of the 2021 Approved budget. The projected spending rate in 2021 is driven broadly by major capital spending Programs and Agencies such as TTC, Toronto Water and Transportation Services:

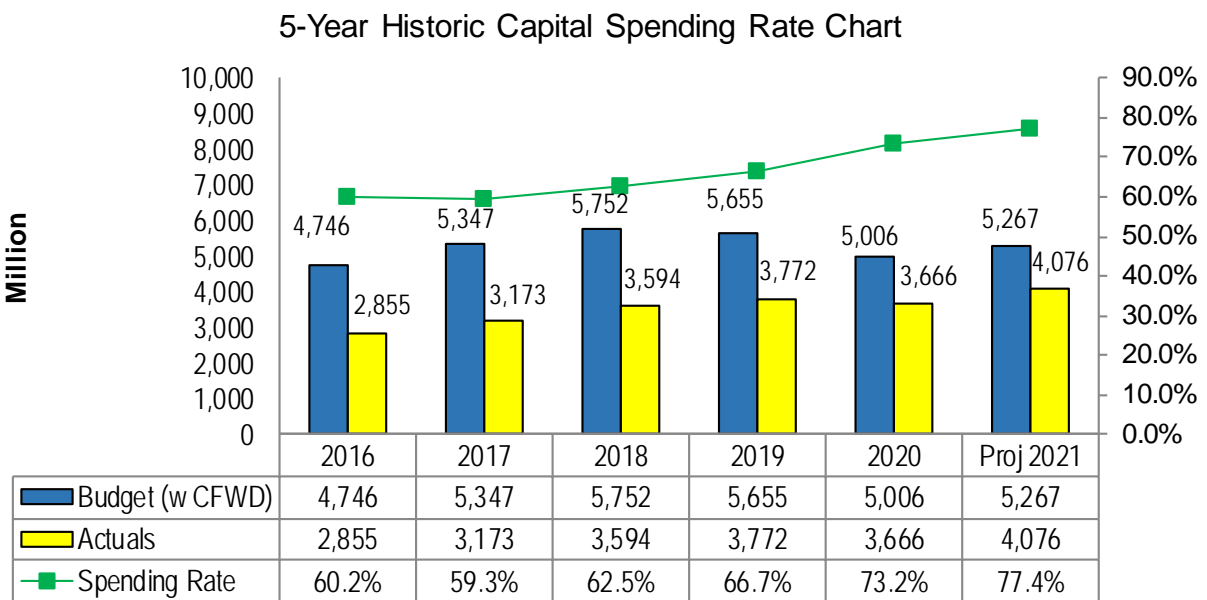
- Based on TTC's Q2 Submission, TTC (Base Programs) is projecting to spend \$1.076 billion or 84.0% of its 2021 Approved Capital Budget. The largest expenditures are expected to be on the *Purchase of Streetcars (\$151.7 million)*, *Other Buildings & Structures Projects (\$88.0 million)*, *Purchase of Buses (\$87.2 million)* and *Easier Access-Phase III (\$81.2 million)*.
- Toronto Water is projecting to spend \$1.331 billion or 90.6% of its 2021 Approved Capital Budget. The largest expenditures are expected to be on *Ashbridges Bay WWTP - Effluent System Project (\$135.0 million)*, *Basement Flooding Relief project (\$116.5 million)*, *Dist Watermain replacement project (\$102.1 million)*, and *Don & Waterfront Trunk/CSO project (\$86.0 million)*.

- Transportation Services is on track with most of its major projects including some of its biggest projects: Local and Major Road Rehabilitation projects (\$116.3 million), the *F.G. Gardiner* project (\$68.3 million), and *City Bridge Rehabilitation Critical projects* (\$39.5 million). As a result Transportation Services is projected to spend \$368.6 million or 80.3% of its approved 2021 Capital Budget.

Figure 1 below compares the actual year-end spending rate in each of the years 2016 to 2020, and the projected 2021 year-end spending rate as 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 funding from prior years' unspent budget.

As indicated in the annual chart below, the City's annual spending rate is trending up from year 2017's 59.3% to 2020's 73.2%. Based on the projection submitted by City Divisions and Agencies, this trend will continue in 2021. The 2021 projected spending rate is 77.4%, which is also higher than the 5 year average of 64.4%.

Figure 1: 2016 - 2020 Spending and 2021 Projected Capital Spending Rate (\$ millions)



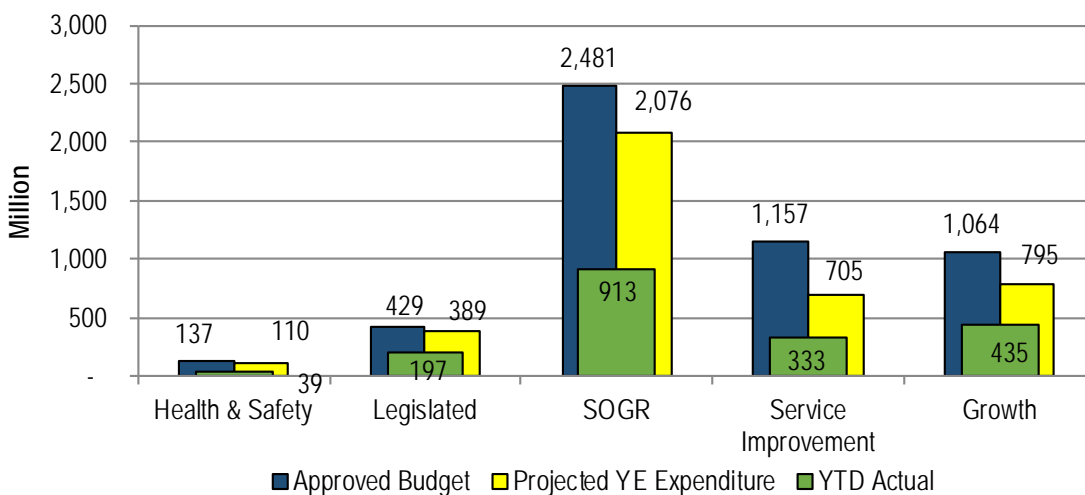
As a direct result of the COVID-19 pandemic, the efforts of available People and Equity resources have been focused on COVID-19 response and/or front line staffing, creating recruitment challenges elsewhere in the City. While the delivery of a small number of capital projects has been impacted by vacancy challenges this year, divisions have plans in place to improve recruitment efforts, working with People & Equity, and the City continues to experience positive trends in capital spend rates overall, as noted above.

The underspending in salaries and benefits from the resulting vacancy backlog is being leveraged to fund People and Equity recruitment efforts to make further advancements on City vacancies, including positions to support capital project delivery. These efforts include a combination of added staff within People and Equity as well as the use of

external resources to address vacancies. Further resources will continue to be directed to People and Equity to continue these actions through the 2022 Operating Budget, subject to Council's consideration and approval during the upcoming budget process. As such, staff anticipate that the improvements made to capital spend rates will continue to be experienced.

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 2021 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2021 Approved Budget and Spending by Project Category (\$Millions)

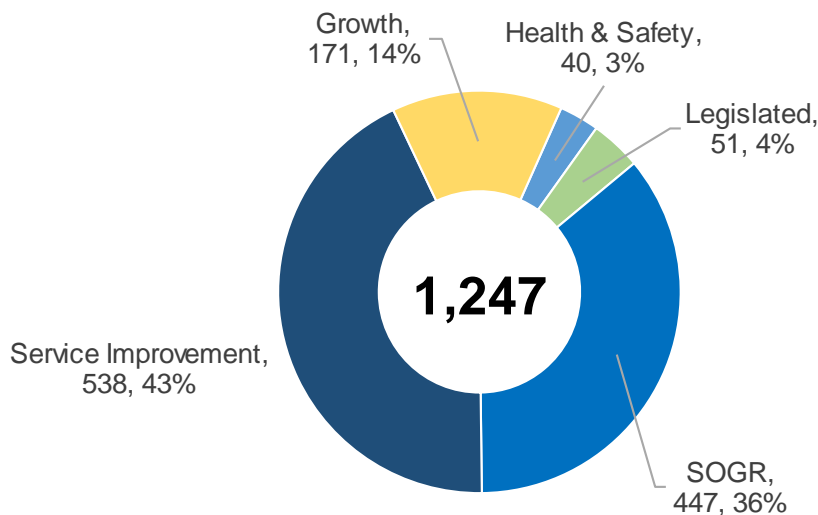


Legislated and State of Good Repair (SOGR) projects have the two highest projected spending rate of 90.6% and 83.7% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.076 billion which is in line with the City's continued emphasis on SOGR investment. Health & Safety has the next highest projected spending rate of 80.8%. It is also anticipated that about 74.8% of the approved Capital Budget for Growth and 61.0% of Service Improvement 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 2021 City's capital expenditure and spending rate by project category.

Table 3: City Budget and Projected Spending by Project Category

Project Category (\$M) - Q3 2021	Approved Budget	YTD Actual	Projected YE Expenditure	Projected YE Rate
Health & Safety	137	39	110	80.8%
Legislated	429	197	389	90.6%
SOGR	2,481	913	2,076	83.7%
Service Improvement	1,157	333	705	61.0%
Growth	1,064	435	795	74.8%
Total	5,267	1,917	4,076	77.4%

As illustrated in Figure 3 below, the City has a total of 1,247 open capital projects at the end of 9 months of 2021. Figure 3: 2021 Open Projects



Service Improvement projects account for the majority of open projects totalling 538 or 43% of the total City's capital projects. SOGR projects account for 447 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.

Closed Capital Projects in the nine months of 2021

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 two capital projects from the Tax Supported Programs that have been completed in the nine months of 2021 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$22.2 million and actual expenditures of \$18.0 million. The main difference of \$4.2

million is related to a SOGR project being closed and transferred to Housing Secretariat Operating budget.

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:

Children's Services

The division is requesting an acceleration of funding of \$2.589 million for 4 child care development projects, managed in partnership with school boards, as construction timelines are ahead of originally estimated schedules. In addition, the division is reducing total costs for 2 child care development projects by \$2.150 million as projects were completed under budget. The division is also requesting an increase of \$0.900 million in total costs for the Anishnawbe Child Care Centre project, to be fully funded by the Child Care Capital Reserve Fund (XR1103) to address inflationary pressure in the construction market.

The total impact of these permanent adjustments is an increase of \$0.439 million to 2021 cash flows, as well as an overall decrease of \$1.250 million to the 2021-2030 Capital Budget and Plan.

Parks, Forestry and Recreation

As detailed in Appendix 4, City Council's authority is required to amend the 2021 Council Approved Capital Budget and 2022-2030 Capital Plan for Parks, Forestry and Recreation (PF&R) by adjusting project cash flows to reflect the project delivery schedules and program requirements. Overall these Q3 in-year adjustments reflect a total increase in project costs and associated cash flow funding of \$0.320 million in 2021, \$0.295 million in 2022 and \$0.100 million in 2023, for a total of \$0.715 million due to addition of non-debt funding sources (Section 37 and Section 42 Above 5% Cash-in-

lieu). In addition, the Q3 in-year adjustments include a reallocation of \$0.275 million in Section 42 reserve fund from one completed project to two projects underway; acceleration and deferral of \$9.836 million in cash flow between years 2021, 2022 and 2023; and reallocation of \$6.072 million in funding sources including Section 42 and Development Charges for the *Bessarion Community Centre* project to align with timing of Section 37 funding. The accelerations and deferrals have zero budget impact but will result in an acceleration of \$8.758 million in approved debt to the PF&R's 2021 Council Approved Capital Budget to proceed with the necessary state of good repair projects.

PF&R are requesting the following in-year adjustments:

- An addition of funding totalling \$0.715 million funded by Section 37 and Section 42 Above 5% Cash-in-lieu to supplement five (5) existing projects:
 - \$0.320 million cash flow added to 2021 for the following: \$0.010 million for signage improvements in *Tommy Thompson Park/Leslie Street Spit (Parks Rehab Central - Ward 14)*; \$0.011 million for a new ping pong table in *June Rowlands Park (Parks Rehab South - Ward 12)*; and \$0.300 million for improvements to winterize washrooms in 2021 (*CAMP ORC Facilities - City-Wide*).
 - \$0.295 million cash flow added to 2022 for *Maple Leaf Cottage Renovation (Ward 14)* and
 - \$0.100 million cash flow added to 2023 for the next phase of pond/stream restoration in *Milliken Park (Ward 23)*.
- A deferral of \$9.836 million in cash flow from 2021 to 2022 and 2023 to align with project schedules:
 - \$8.758 million in CFC deferral from 2021 to 2023 to align with the *Ferry Boat Replacement #1* plan.
 - \$1.078 million in cash flow, funded from Section 42 South District Cash-in-lieu Reserve Fund (XR2209) from 2021 to 2022 to align with the project schedule for the *Dufferin Grove AIR Building*.
- An acceleration of \$9.836 million in cash flow from 2023 and 2022 to 2021 for various State of Good Repair projects to proceed:
 - \$8.758 million in Debt cash flow acceleration from 2023 to 2021 in order for state of good repair (SGR) work to proceed for three (3) projects: \$6.758 million for *Capital Asset Management Program (CAMP) SGR Arenas*; \$1.0 million for *CAMP (SGR) Special Facilities Buildings and Structures*; and \$1.0 million for *CAMP (SGR) Trails, Pathways and Bridges*.
 - \$0.330 million in cash flow from 2022 to 2021, funded from XR2216 Offsite Parkland Dedication Reserve Fund (XR2216), for a claim associated with the *Land Acquisition Edithvale Park* project to proceed.
 - \$0.748 million in cash flow from 2022 to 2021, funded from Section 42 City-Wide Cash-in-lieu Reserve Fund (XR2211) for *Rosehill Reservoir Park Improvements* to proceed.

- Reallocation of 2021 cash flow funding of \$0.275 million within Section 42 West District Cash-in-lieu Reserve Fund (XR2203) from the *West Acres RC* project that has been completed to the *High Park Washroom/Chess Clubhouse Upgrades* project for additional expenditures (\$0.026 million) and for the Playground Enhancement Program for improvements to various sites (\$0.248 million).
- Reallocation of funding sources to align with timing of Section 37 funding through deferring \$6.072 million in Section 37 funds from 2021 to 2022 and advancing \$1.050 million from Section 42 City-Wide Cash-in-lieu reserve fund (XR2211) and \$5.022 million from Development Charges(XR2114) from 2022 to 2021 for the *Bessarion Community Centre* project.

Senior Services and Long-Term Care

Requesting for a Q3 in-year budget adjustment to reduce the Building Health & Safety COVID-19 Infrastructure projects 2021 project cost and 2021 cash flow from \$10.0M to \$2.3M to reflect City's allocation under Infrastructure Canada (EX19.2). Applications were not approved by Infrastructure Canada for the approximate \$7.7M in requests and a Q3 in-year adjustment is being requested to reduce the budget from \$10M to \$2.3M to match federal and provincial funding that is approved.

Shelter, Support & Housing Administration

Request to amend the Approved 2021 - 2030 Capital Budget Plan for SSHA to implement the transfer project cost and cashflows of the "Taking Action on Tower Renewal" capital project from SSHA's 10-year Capital Budget and Plan to Housing Secretariat's 10-year Capital Budget and Plan. This transfer is required as part of the ongoing transformation initiative of Housing Secretariat to support the delivery of its expanded housing mandate as directed by the Senior Leadership Team.

Housing Secretariat

A request to close a capital project SOGR-TCHC (CAF002-00) and amend Housing Secretariat's 2021 - 2030 Capital Budget and Plan with a corresponding increase in Housing Secretariat's Operating Budget (\$4.163 million gross, \$0 net). Project which will support the renovation of TCHC housing units for use as affordable housing will now be delivered through flow through of provincial funding (COCHI) from Housing Secretariat's Operating budget to TCHC.

The adjustment also includes a request of transferring \$13.5 million of additional project cost and cash flows; and associated capital projects from SSHA to support the ongoing transformation initiative of Housing Secretariat.

311 Toronto

To meet the funding needs for testing of business critical software, \$0.2 million will be transferred from the Artificial Intelligence to the SOGR project. The Artificial Intelligence pilot project is being deferred to future years through the 2022 budget process.

Environment and Energy

Defer \$25 million, funded by recoverable debt, in 2021 cash flow for the "New Development Sustainable Energy Plan Financing" to 2023 (\$10 million) and 2024 (\$15 million) to align EED's 10 year capital plan with the expected program demand. The cash flow in 2021 is not required as additional time was required to align the application process and program criteria with this new program.

Fleet Services

Acceleration of \$4.0 million from 2022 into 2021 of reserve funded cash flow for Transportation Services vehicle replacement projects is requested for additional sidewalk snow removal vehicles to be delivered 2021 with a corresponding deferral of \$4.0 million of reserve funded cash flows into 2022 for Toronto Water vehicle replacement projects, due to vehicle purchasing delays relating to COVID-19, with net zero project and debt impacts.

A request is also being made to accept funding of up to \$0.670 million from the Department of Natural Resources for the purchase of Electric Vehicle Charging Infrastructure, in accordance with an agreement signed by the City Manager on July 26, 2021 through authority provided by Council on October 29, 2019, as part of GL8.16 The City of Toronto 2019-2023 Green Fleet Plan (The Pathway to Sustainable City of Toronto Fleets Plan) and 2014-2018 Green Fleet Plan Results and Wrap-Up, recommendation #5, and replace existing approved reserve funding on the Electric Vehicle Program of \$0.400 million in 2021 and \$0.270 million in 2022 accordingly.

Technology Services Division

To meet the funding needs for legislative mandated updates and mitigate risks with non-strategic platforms:

- \$0.030 million will be transferred from the Electronic Service Delivery - Building Permits project to the AODA Compliance Public Facing project, and
- \$0.117 million will be transferred from the eTime Enterprise Rollout project to the Domino Decommissioning Strategy & Implementation Project

Both the Electronic Service Delivery - Building Permits and eTime Enterprise Rollout projects are complete.

TO Live

In-year budget adjustments are recommended to the TO Live's 2021 Council Approved Capital Budget which will result reduction in debt requirements but no changes in cash flow and project cost:

- Receipt of grant funding of \$0.165 million from the Canada Cultural Spaces Fund reduces debt funding budgeted in the Meridian Hall and Meridian Arts Centre Health and Safety Upgrades COVID-19 projects.

Toronto Public Library

To accelerate the cash flow for Albert Campbell project by \$3.649 million gross and debt, as a result of the project progressing ahead of the schedule. The requested in-year adjustment will not have an impact on the total project cost or overall funding.

Toronto Public Health

Request to reallocate existing available funding of \$0.129 million from the Inspection Management Implementation project included in the Approved 2021-2031 Capital Budget and Plan for Toronto Public Health to create a new project, the "Renovation of Dental Clinic project at 160 Borough Drive", with project cost \$0.129 million to be fully spent in 2022. The existing dental clinic at this location has reached operatory capacity and is insufficient to meet public demand. This renovation project will address the lack of capacity in this area and will support the provincial mandate to deliver a seniors dental care program.

Solid Waste Management Services

As detailed in Appendix 4, City Council's authority is requested to amend the 2021 Capital Budget and 2022-2030 Capital Plan for Solid Waste Management Services by adjusting project cash flows to reflect the project delivery schedules and program requirements. Overall, these Q3 adjustments reflect a total net cash flow reallocation and deferral \$2.400 million from the 2021 Capital Budget to the 2022-2030 Capital Plan, reserve and recoverable debt funded.

- a) In order to accommodate the Bid Award for the Scarborough Transfer Station Source Separated Recyclable Materials (SSRM) Bunker Replacement, which requires funding of \$6.728 million from 2021 to 2023, a deferral of \$2.4 million from 2021 to the 2022/2023 Capital Plan is recommended. Additional approved cash flow funds are also being recommended to be accelerated to 2022/2023 in the amount of \$3.067 million from the 2024-2029 Capital Plan to complete the required funding plan. Funding sources are Recoverable Debt and the Waste Management Reserve Fund.
- b) Within the project for SWM IT Application Initiatives it is recommended to move \$0.033 million in unspent funding from the subproject for SWMS IT Strategy Refresh to the subproject for SWMS Business Intelligence Implementation in order to facilitate the ongoing requirements. Funding source is the Waste Management Reserve Fund.
- c) To facilitate ongoing project work within the project for Green Lane Landfill Development it is recommended that \$1.168 million be re-allocated from Green Lane Engineering & Monitoring to the following projects:

1. Green Lane Gas Control System (\$0.575 million) for the inclusion of 2 condensate chambers and 2 valve chambers;
2. Green Lane Site Services/Cover/Stormwater (\$0.292 million) for increased project cost estimates related to site cover and site services; and,
3. Green Lane Cell Excavation & Base Construction (\$0.301 million) for increased project cost estimates, specifically for increased excavation (80,000m³); as well as the increased costs of stripping and stockpiling topsoil due to this expansion of excavation.

Funding sources are Recoverable Debt and the Green Lane Reserve Fund.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2021 Capital Variance and Projection Summary for the Nine Months Ended September 30, 2021
Appendix 2A 2021 Q3 Capital Projects Recommended for Full Closure
Appendix 2B 2021 Q3 Capital Projects Recommended for Partial Closure
Appendix 3 2021 Q3 Major Capital Projects
Appendix 4 In-Year Adjustments for the Nine Months Ended September 30, 2021
Appendix 5 2021 Q3 Capital Variance Dashboard by Program and Agency