

## Capital Variance Report for the Six Months Ended June 30, 2021

**Date:** September 3, 2021

**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, 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 \$1.264 billion or 23.9% of the 2021 capital budget of \$5.292 billion for the period ended June 30, 2021 and is projecting to expend \$4.254 billion or 80.4% by December 31, 2021.

Table 1: Capital Variance Summary

<b>Table 1</b> <b>Corporate Capital Variance Summary</b> <b>for the Period Ended June 30, 2021</b>					
	<b>2021 Approved Budget</b>	<b>2021 Q2 Actual Expenditures</b>		<b>2021 Projected YE Expenditures</b>	
	<b>\$M</b>	<b>\$M</b>	<b>%</b>	<b>\$M</b>	<b>%</b>
City Operations	2,187	427	19.5%	1,617	73.9%
Agencies	1,641	442	26.9%	1,325	80.8%
<b>Tax Supported</b>	<b>3,828</b>	<b>869</b>	<b>22.7%</b>	<b>2,942</b>	<b>76.9%</b>
<b>Rate Supported Programs:</b>	<b>1,464</b>	<b>395</b>	<b>27.0%</b>	<b>1,313</b>	<b>89.6%</b>
<b>TOTAL</b>	<b>5,292</b>	<b>1,264</b>	<b>23.9%</b>	<b>4,254</b>	<b>80.4%</b>

*\*Note: Includes 2020 carry forward funding*

The Capital spending pattern for the first six month typically ranges between 17% and 29% of the total Council Approved Capital Budget, with the 2021 experience of 23.9%. Total City projected spend of 80.4% by year-end is comprised of a Tax Supported Programs spending rate of 76.9% and a Rate Supported Programs spending rate of 89.6%.

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 in 2020 and also improve capital spend rate in future years; enabling funding capacity otherwise going unspent to be directed to capital priorities.

## **RECOMMENDATIONS**

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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**

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The capital expenditures in the first six months of 2021 total \$1.264 billion and year-end expenditures are anticipated to increase to \$4.254 billion or 80.4% of the total 2021 Approved Capital budget. 24 of the 38 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 Programs and Agencies.

This report includes recommended in-year capital budget adjustments to the 10-Year Capital Plan totalling \$18.6 million based on a 2021 cash flow reduction of \$21.6 million and additional 2022 – 2030 future commitment of \$40.2 million.

Appendix 4 details the recommended capital adjustments.

## **DECISION HISTORY**

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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 in the following page outlines capital spending for Tax and Rate Supported Programs for the Six Months Ended June 30, 2021 for major service areas.

Table 2: Capital Variance Summary

<b>Table 2</b> <b>Corporate Capital Variance Summary</b> <b>for the Period Ended June 30, 2021</b>					
	2021 Approved Budget	2021 Q2 Actual Expenditures		2021 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
<b>Tax Supported Programs:</b>					
Community and Social Services	928	236	25.5%	736	79.3%
Infrastructure and Development Services	662	112	16.9%	503	76.0%
Corporate Services	500	76	15.3%	342	68.5%
Finance and Treasury Services	79	2	2.4%	19	24.2%
Corporate Initiatives	3	0	1.7%	2	44.8%
Other City Programs	15	1	9.3%	15	98.8%
<b>Sub Total City Operations</b>	<b>2,187</b>	<b>427</b>	<b>19.5%</b>	<b>1,617</b>	<b>73.9%</b>
TTC	1,281	375	29.3%	1,076	84.0%
Transit Expansion (TTC)	95	14	14.2%	78	82.2%
Other Agencies	264	53	19.9%	170	64.3%
<b>Sub Total - Tax Supported</b>	<b>3,828</b>	<b>869</b>	<b>22.7%</b>	<b>2,942</b>	<b>76.9%</b>
<b>Rate Supported Programs:</b>					
Solid Waste Management	81	15	17.9%	65	79.6%
Toronto Parking Authority	52	9	16.2%	26	48.9%
Toronto Water	1,331	372	27.9%	1,222	91.9%
<b>Sub Total Rate Supported</b>	<b>1,464</b>	<b>395</b>	<b>27.0%</b>	<b>1,313</b>	<b>89.6%</b>
<b>Total</b>	<b>5,292</b>	<b>1,264</b>	<b>23.9%</b>	<b>4,254</b>	<b>80.4%</b>

City Programs and Agencies project year-end capital expenditures of \$4.254 billion or 80.4% 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:

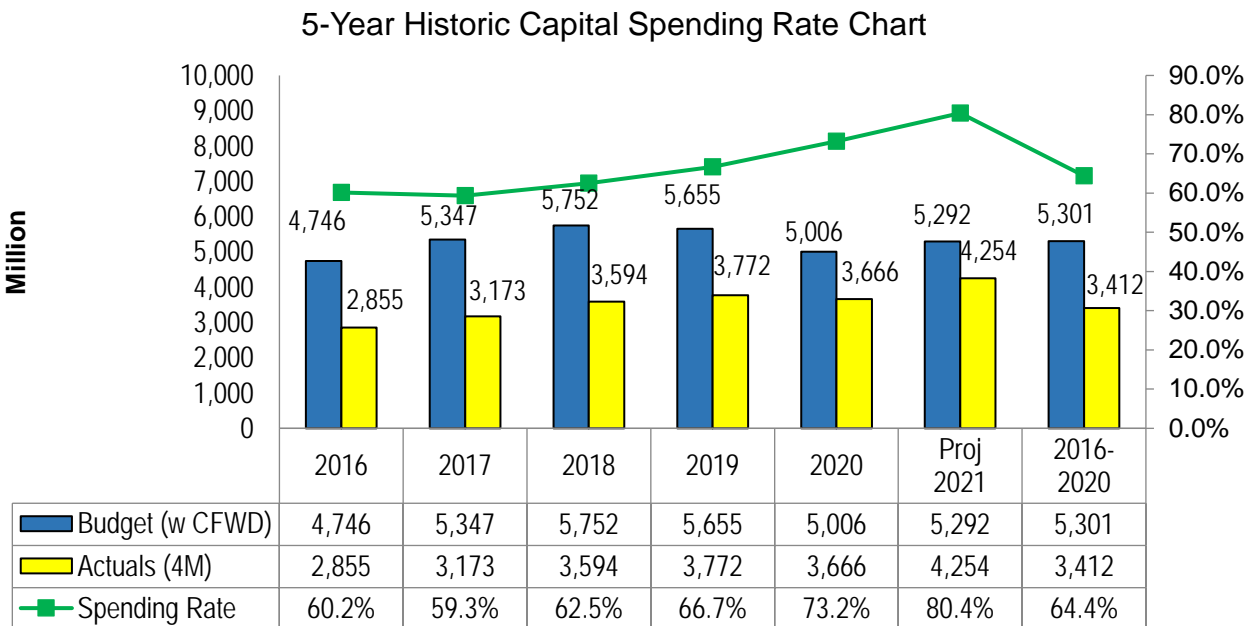
- TTC (Base Programs) is projecting to spend \$1.076 billion or 84.0% of its 2021 Approved Capital Budget. The largest expenditures are expected to be on the *Purchase of Streetcars (\$151.7 million)*, *Other Buildings & Structures Projects (\$88.0 million)*, *Purchase of Buses (\$87.2 million)* and *Easier Access-Phase III (\$81.2 million)*.
- Toronto Water is projecting to spend \$1.222 billion or 91.9% of its 2021 Approved Capital Budget. The largest expenditures are expected to be on the *Basement Flooding Relief project (\$125.3 million)*, *Ashbridges Bay WWTP - Effluent System Project (\$124.0 million)*, *Dist Watermain replacement project (\$107.1 million)*, and *Don & Waterfront Trunk/CSO project (\$81.6 million)*.

- Transportation Services is on track with most of its major projects including some of its biggest projects: Local and Major Road Rehabilitation projects (\$112.8 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 \$382.5 million or 83.5% of its approved 2021 Capital Budget.

Figure 1 below compares the actual year-end spending rate in each of the years 2016 to 2020, showing the 5 year average from 2016 to 2020, and the projected 2021 year-end spending rate is 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.

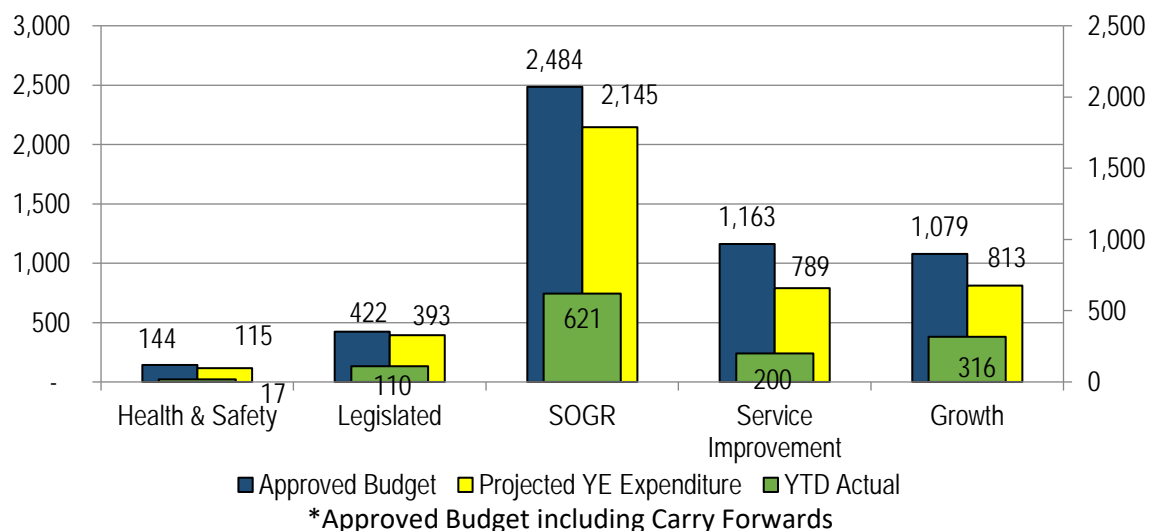
**As indicated in the annual chart below, the City's annual spending rate is trending up from year 2017's 59.3% to 2020's 73.2%. Based on the projection submitted by City Divisions and Agencies, this trend will continue in 2021.**

Figure 1: 2016 - 2020 Spending and 2021 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 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 93.0% and 86.3% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$2.145 billion which is in line with the City's continued emphasis on SOGR investment. Health & Safety has the next highest projected spending rate of 79.9%. It is also anticipated that about 75.4% of the approved Capital Budget for Growth and 67.8% 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.

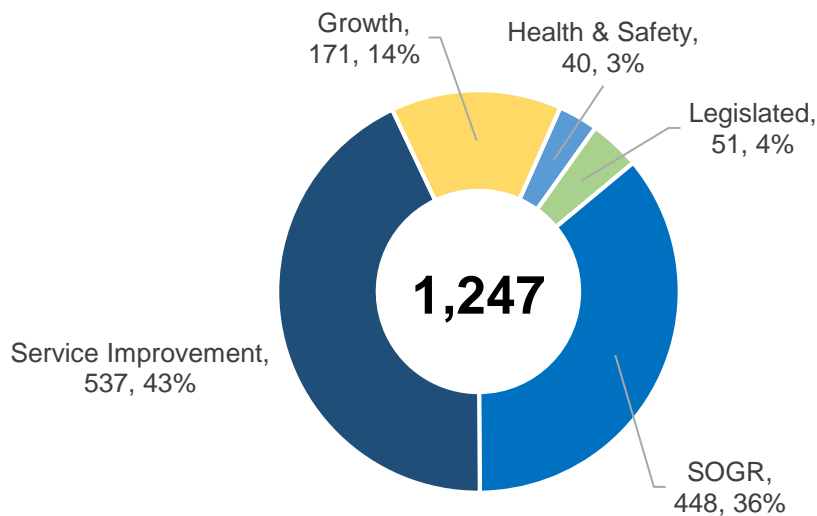
Table 3 below outlines 2021 City's capital expenditure and spending rate by project category.

Table 3: City Budget and Projected Spending by Project Category

Project Category (\$M) - Q2 2021	Approved Budget incl. C/Fwd	YTD Actual	Projected YE Expenditure	Projected YE Rate
Health & Safety	144	17	115	79.9%
Legislated	422	110	393	93.0%
SOGR	2,484	621	2,145	86.3%
Service Improvement	1,163	200	789	67.8%
Growth	1,079	316	813	75.4%
<b>Total</b>	<b>5,292</b>	<b>1,264</b>	<b>4,254</b>	<b>80.4%</b>

As illustrated in Figure 3 below, the City has a total of 1,247 open capital projects at the end of 6 months of 2021.

Figure 3: 2021 Open Projects



Service Improvement projects account for the majority of open projects totalling 537 or 43% of the total City's capital projects. SOGR projects account for 448 or 37% 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 six 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 3 capital projects from the Tax & Rate Supported Programs that have been completed in the six months of 2021 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$7.4 million and actual expenditures of \$7.3 million. This results in permanent underspending of \$0.144 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:

### ***Parks, Forestry and Recreation***

City Council's authority is requested to amend the 2021 Capital Budget and 2022-2030 Capital Plan for Parks, Forestry and Recreation (PFR) by adjusting project cash flows to reflect the project delivery schedules and various park improvements and upgrades. The total change includes an overall net increase in project cost of \$0.422 million and cash flow funding of \$0.024 million in 2021 and \$0.398 million in 2022-2030, fully funded by reserve funds, section 37 and 42. The amendments have no incremental impact to the debt requirements over the 10-year period and will align the 2021 Council Approved Capital Budget better with PFR's capital program requirements for 2021 and beyond.

Requested adjustments include an acceleration of \$1.280 million in future year commitments from 2022 to 2021 for the State of Good Repair of Community Centres to proceed, and an acceleration of \$0.180 million in future year commitments from 2023 to 2021, for a total of \$1.460 million.

The acceleration request was offset by the deferral of the \$0.170 million to 2022 and \$0.180 million to 2023 for the Modernization Roadmap to align with the project schedule, and the deferral of the \$1.110 million to 2022 for the Algonquin Island North Shore Berm as the project is delayed.

Additional 2021 cash flow funding requirement of \$0.024 million for supporting park improvements at Godstone Park and Dallington Park, and 2023-2030 future year commitments to supplement 2 existing projects: \$0.335 million for 167 Armour Boulevard - Park Development S37 to support the scope of work for park improvements, and \$0.063 million for Diana Park to support the award of tender for park improvements are requested. These cash flow funding and future year commitments are fully funded by Section 37 and 42 community benefits from developers specifically for park and playground upgrades and improvements in respective neighbourhoods, resulting in no incremental impact on approved debt for PFR over the 10-year period.

## ***Fire Services***

Fire Services is requesting an additional funding of \$18.160 million from the 2022-2030 program requirements to support TFS's fleet replacement backlog, based on the timing of the current Fleet Services Replacement Policy.

## ***Transportation Services***

Adjustments are requested to the approved 2021 Capital Budget for Transportation Services to reallocate funding between projects in order to align project delivery with federal funding from the Investing in Canada Infrastructure Program for Active Transportation projects.

## ***Waterfront Revitalization Initiative***

Reallocation for funding sources to support the amended Tri-Governmental Agreement ('Amending Agreement'). No material change to the agreement from a funding standpoint and cash flow of \$19.5 million has been pushed out to future years.

## ***311 Toronto***

Adjustments are recommended to 311 Toronto 2021's Capital Budget to transfer project cost and 2021 cash flow totalling \$1.264 million to the Technology Services Division (TSD) 2021 Capital Budget for City-wide net zero gross and debt impact. The amount consists of 2020 incremental carry forwards that were approved by Council for 311 Toronto projects that are now being delivered under TSD's capital program. The adjustment will transfer out \$0.596 million from the "Verint Upgrade" project (CTO014-09) and \$0.668 million from the "Universal Call Centre Enterprise (UCCE) Telephony Maintenance & Upgrade" project (CTO014-10).

## ***Corporate Real Estate Management***

Corporate Real Estate Management (CREM) is seeking to amend its 2021 Capital Budget and 2022-2030 Capital Plan to better align cash flow and project cost with capital delivery and project requirements for multiple projects. Reallocations are primarily to accelerate and support SOGR and AODA work using funds that have been deferred to match cash flows with anticipated spending based on updated project timelines. The requested adjustments will result in deferral of \$1.400 million net in recoverable debt cash flows to 2022 for the Energy Conservation and Demand Management Plan and otherwise have net zero project cost and debt impact.

## ***Fleet Services***

A 2021 re-allocation of \$0.100 million between Fuel Site Closure, Upgrade & Replacement projects with no gross expenditure or debt impact, is requested to more accurately align with capital spending needs.



In addition, a 2021 re-allocation of \$0.017 million requested from various Garage Security projects to the Fleet Office Modernization project, with no change to overall cash flows or debt funding.

### ***Chief Information Security Office***

- To reallocate project cost and 2021 cash flow totalling \$0.803 million from the "Managed Security Service Provider (MSSP)" project (CCY001-05) to the "Infrastructure Vulnerability" project (CCY001-08) to enable the implementation of a vulnerability management for the City's critical infrastructure industrial control systems. The solution will provide multiple divisions the ability to secure their industrial systems and ensure availability of critical services.
- To reallocate project cost and 2021 cash flow totalling \$0.100 million from the "Cyber Command Centre" project (CCY001-07) to the "Digital Forensics" project (CCY001-06) to enable the use of a forensics lab for the Forensics service area sooner than planned by purchasing digital forensics equipment that was originally planned for 2022.

### ***Technology Services Division***

- To transfer project cost and 2021 cash flow totalling \$1.264 million from 311 Toronto's Capital Budget for projects that are now being delivered under TSD's capital program. The adjustment will transfer in \$0.596 million to the "Verint Upgrade" project (CIT052-01) and \$0.668 million to the "Universal Call Centre Enterprise (UCCE) Telephony Maintenance & Upgrade" project (CIT052-02) with no City-wide gross expenditure or debt impact.
- To create 2 new projects:
  - The "WebGENCAT Replacement" project (WBS to be created) with project cost and 2021 cash flow of \$0.700 million; and
  - The "Livelink Records Server (LLRS) Replacement" project (WBS to be created) with project cost and 2021 cash flow of \$1.100 million funded by reallocations of project cost and 2021 cash flow totalling \$1.800 million from the "Enterprise Document & Record Management Solutions (EDRMS)" project (CIT046-10) to improve visibility and accountability, with net zero gross and debt impact.
- To transfer unspent project cost and 2021 cash flow totalling \$0.127 million from the completed "SAP Solution Manager Version Upgrade" project (CIT045-02) to the "Domino Decommissioning Strategy & Implementation" project (CIT045-35) to address increased risks arising from IBM's divestiture of the Domino platform.
- To transfer unspent project cost and 2021 cash flows from various completed projects totalling \$0.189 million to the "AODA Compliance Public Facing" project (CIT045-35) to address additional requirements to ensure digital accessibility is

reached as legislated under the Accessibility for Ontarians with Disabilities (AODA) Act with net zero gross and debt impact.

### ***Exhibition Place***

This budget adjustment of \$1.750 million is to reallocate funding from the Electrical Underground High Voltage Utilities project to two new projects that have been deemed urgent for safety concerns of the weight capacity of the floors in the Enercare Centre during Events.

### ***Toronto Transit Commission***

Toronto Transit Commission is seeking to amend the 2021 Approved Capital Budget and the 2022-2030 Capital Plan to better align the cash flow with capital delivery and project requirements for various projects in its capital program. 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.

The adjustments will not impact the 2021 Capital Budget and will support the budget and plan with the Division's capital project delivery schedule and project requirements.

### ***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 Q2 adjustments reflect a total net cash flow reallocation and acceleration of \$0.205 million to the 2021 Capital Budget from the 2022-2030 Capital Plan, reserve and recoverable debt funded.

- a) Requested adjustments include funding for the SWMS project for Work Management System (WMS) Implementation being transferred to the TSD project for the Enterprise Work Management System in the amount of \$0.134 million. Funding source is the Waste Management Reserve Fund.
- b) In order to facilitate the ongoing requirements of the Long Term Waste Management Strategy, \$2.917 million in 2023 to 2025 cash flow funding for the subproject for Mixed Waste Processing is being reallocated to the subproject for Extended Producer Responsibility in 2022 to 2025 for a total net zero impact. Associated with this is a further transfer of \$0.205 million in planned staff funding for the Mixed Waste Processing project in 2025 which is being reallocated to the subproject for Extended Producer Responsibility in 2021. Funding source is the Waste Management Reserve Fund.
- c) An acceleration of cash flows in the amount of \$4.786 million from 2022 to 2021 for a Purchase Order Amendment for the Dufferin Organics Processing Facility for processing tonnes as part of the DBC from October 2020 to September 2021. Includes

amendment for contracted engineering support for the City as part of contract administration in the negotiations with the contractor to close out the DBC. Funding source is the Waste Management Reserve Fund. To offset the movement of cash flow into 2021, \$4.786 million will be deferred from 2021 to 2022 for the Dufferin Waste Facility Site Improvement. Funding for this offset is recoverable debt.

## **CONTACT**

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## **SIGNATURE**

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Heather Taylor  
Chief Financial Officer and Treasurer

## **ATTACHMENTS**

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Appendix 1 2021 Capital Variance and Projection Summary for the Six Months Ended June 30, 2021  
Appendix 2 2021 Q2 Capital Projects Recommended for Full Closure  
Appendix 3 2021 Q2 Major Capital Projects  
Appendix 4 In-Year Adjustments for the Six Months Ended June 30, 2021  
Appendix 5 2021 Q2 Capital Variance Dashboard by Program and Agency