

Adjustments to Capital Budget, Carry Forward Funding and Future Year Commitments

Date: April 5, 2022

To: Budget Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

During the 2022 tax and rate supported budget processes, City Council approved a combined \$1.082 billion of previously approved unspent capital projects to be carried forward to 2022-2026. The approved carry forward amount was based on an initial estimate based on projections available at the time of budget development, prior to 2021 year-end closing. With the 2021 fiscal year closed in March 2022, City Programs and Agencies have finalized the 2021 actual project spending as well as the total carry forward request. As a result, the purpose of this report is to seek Council's approval for an additional \$545.2 million of tax and rate supported carry-forward funding, of which \$163.7 million to be carried to 2022 and \$381.5 million to 2023 to 2026, to enable staff to complete 2021 and prior year approved capital projects. The increased carry forward funding was mainly driven by lower 2021 actual expenditures compared to budget due to sustained impacts from public health measures and supply chain disruption throughout 2021, which were more adverse than anticipated particularly due to the emergence of the Omicron wave at year-end.

With the additional carry forward request, the total capital carry forward funding will be \$1.627 billion, and the total Council approved 2022 tax and rate supported Capital Budgets including previously approved carry forward amount will be \$5.683 billion. The revised total carry forward funding is equivalent to 28.6% of the total tax and rate supported Capital Budget.

This report also brings forward in-year rate and tax supported Capital Budget adjustment requests for 2021 and future years. Approval of these requests are needed as City Council's authority is required to continue with the project delivery.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve additional carry forward funding of \$545.2 million from unspent capital projects funding as detailed in Appendix 1a and 1b, in order to continue work on

previously approved capital projects in 2022 and beyond, and that the 2022 Approved Tax and Rate Supported Capital Budgets for respective City Programs and Agencies be adjusted accordingly.

2. Council approve year-end budget adjustments to the 2021 Approved Tax and Rate Supported Capital Budgets as detailed in Appendix 2.

FINANCIAL IMPACT

In addition to the carry forward amount previously approved by City Council during the 2022 budget approval process, an additional \$545.2 million in funding carried forward from 2021 to 2022 and future years is being recommended in this report, for the Tax and Rate Supported Capital Budgets combined.

Of the \$545.2 million carry forward funding adjustments recommended in this report, \$163.7 million gross expenditure will be added to the 2022 Capital Budget and \$381.5 million gross expenditure will be added to the Capital Plan in the years 2023 to 2026. Recommended carried forward funding from 2021 to 2022 and future years will not change overall project costs and associated funding.

The additional carry forward funding will increase the 2022 Approved Tax and Rate supported Capital Budgets from \$5.520 billion to \$5.683 billion.

DECISION HISTORY

City Council approved \$76.0 million of previously approved unspent capital project for Rate Program on December 15, 2021; and \$1,006.0 million for Tax Program on February 17, 2022 to be carried forward to 2022-2026 in order to continue the project delivery.

With the 2021 fiscal year closed, this report is to seek Council's approval for additional carry-forward adjustments based on 2021 final results. As part of the City's financial management and accountability framework, 2021 carry forward funding requests are submitted to Council for approval to ensure appropriate spending authorities are in place to continue capital work.

COMMENTS

The City's Carry Forward Funding Policy enables City Programs and Agencies to carry forward unspent balances for approved projects that have not been completed. Despite City of Toronto's effort to deliver projects on time, City Programs and Agencies were facing tremendous challenges in 2021 as COVID restrictions continued to have a negative impact across City's divisions. The global supply chain disruption and labour shortage also escalated the pressures in material deliveries and staff recruitment, causing unexpected delays in completing capital projects.

Due to the timing of the budget planning process, Programs and Agencies were not able to precisely calculate the carry-forward funding needed for the completion of 2021 and prior years' capital projects before approval of the 2022 Capital Budget. With the 2021 fiscal year closed, City Programs and Agencies can now finalize 2021 actual project expenditures and any associated under expenditures of which unspent funding can be carried forward and added to the Council Approved 2022-2031 Capital Budget and Plan to complete previously approved capital projects. It is essential that these adjustments be made to provide necessary cash flow spending authorities to continue capital project delivery.

In accordance with the City's Carry Forward Policy, approval is being sought to carry forward funding for uncompleted 2021 projects. Table 1 below summarizes the recommended funding to be carried forward and added to the 2022-2031 Capital Budget and Plan:

Table 1: Total Carry Forward Funding Adjustments

	Period	Tax	Rate	Total
Budget without Carry Forward	2022	3,099	1,444	4,543
Previously Approved Carry Forward	2022	908	69	977
	2023-2026	98	7	105
Incremental Carry Forward	2022	126	37	163
	2023-2026	358	24	382
Total Carry Forward	2022	1,034	106	1,140
	2023-2026	456	31	487
Budget including Carry Forward	2022	4,133	1,550	5,683

Approval of these incremental carry forward funding adjustments will increase the Council approved carry forward funding from \$1.082 billion to \$1.627 billion.

Based on these recommended adjustments, the total 2022 Approved Capital Budget will increase from \$5.520 billion to \$5.683 billion.

For 2021, capital spending activity was consistently slowed compared to normal years throughout all four quarters due to the sustained uncertainty of the COVID-19 and its impact on the city's financials. Despite the slow-down, the projection at the end of the third quarter is for the 2021 annual capital spend rate to reach 77.4%, which is higher than the 5-year average of 64.4%. The expected higher spending rate is primarily attributed to the improvement in how capital projects were budgeted for the year though has been negatively affected by the ongoing challenges associated with COVID-19 and the emergence of the Omicron wave at year-end. The City will continue to plan the annual capital projects in line with both affordability and achievability, based on the historical actual capacity. The strategy is expected to continuously deliver realistic

capital plans and drive more reasonable spending rate in future years. The actual year-end spending rate will be confirmed as part of year end reporting.

Year-end Budget Adjustments

City Council approval is required for 2021 year-end budget adjustments detailed in Appendix 2.

It is recommended that Council approve adjustments related to the following:

Tax Supported Programs:

Economic Development and Culture

An adjustment is recommended to increase the Economic Development and Culture's (EDC) 2021 Council Approved Capital Budget by \$0.025 million, cash flowed in 2021 and fully funded by a federal grant received late in Q4 2021, to support the restoration of the Toronto War Memorial. This adjustment will result in an increase in project cost of \$0.025 million with no changes in approved debt requirements for EDC.

Parks, Forestry & Recreation

Requested adjustments include the reallocation of project costs and cash flows in the amount of \$0.142 million in the 2021 Capital Budget between approved projects. Additional project funding requirements due to over expenditures mainly related to park development in 2021. The reallocation of funds will have zero gross and debt impact to the 10-Year Capital Plan.

PFR also seeks authority to adjust cash flows in the amount of \$4.710 million for the acceleration and deferral of projects. A number of projects including construction at Love Park (*York Street Off-Ramp*) and various *State of Good Repair for Community Centres* were able to advance ahead of schedule and require acceleration of future year cash flow commitments from the 2022-2030 Capital Plan to 2021, while others experienced - delays and a deferral of an equivalent amount of cash flow from 2021 to the 2022-2030 Capital Plan is needed. These amendments do not change the total approved project costs and scope, or approved debt requirements over the 10-year period.

In addition, the total change includes an overall net increase in project cost and cash flow funding of \$0.110 million mainly for *Rosehill Reservoir Park Improvement* in 2021, fully funded from Section 42 Parkland Development Reserve Funds, to cover over expenditures in 2021.

Corporate Real Estate Management

The CREM Upgrade and Replacement project is ahead of schedule and requires an acceleration of \$1.524 million in funding from 2022 cash flow to 2021 with net zero impact to overall project cost and debt funding. As well, Channel and Counter Strategy will require an offsetting deferral of \$1.524 million in 2021 from to 2022 to reflect delays

due to COVID 19 as well as coordination with Return to Office and Modern TO initiatives.

Transportation Services

The requested 2021 year-end budget adjustments for Transportation Services primarily reallocate provincial and federal funding for approved COVID-19 Resilience Infrastructure Stream funded projects, realign cash flows for projects proceeding ahead of schedule due to favorable COVID-19 construction conditions, and accelerate funding for land settlement established ahead of schedule.

Toronto Public Library

Adjustments are recommended to the Toronto Public Library's 2021 Council Approved Capital Budget with a number of multi-year renovation and construction projects proceeding ahead of schedule due to strong contractor performance, even with the COVID restrictions. The net acceleration of future year cash flow commitments to 2021, totalling \$2.114 million, which consists of acceleration of \$2.126 million debt and deceleration of \$0.012 million other revenue, is required in order to align cash flow funding requirements with updated project schedules due to strong contractor performance for the following projects:

- Albert Campbell Library Renovation – Construction (\$1.710M Gross and Debt)
- Dawes Road Reconstruction & Expansion (\$0.004M Gross and Debt)
- Wychwood Library Renovation (\$0.399M Gross and \$0.412 Debt)

The recommended budget adjustments do not change the total project costs, the scope of the projects, or approved debt requirements, resulting in zero incremental debt impact to the 2021-2030 Council Approved Capital Budget and Plan for Toronto Public Library.

Toronto Transit Commission

The requested 2021 year-end budget adjustments for the Toronto Transit Commission are primarily to accelerate work/transfer scope based on timing and scheduling. Permanent savings have been identified from construction contracts and have been used to reallocate savings to various programs/projects to accommodate additional spending in 2021 and for the adjustment of funding sources in line with year-end actuals.

Rate Supported Programs:

Solid Waste Management Services

Adjustments are requested to reallocate \$4.073 million of 2021 Solid Waste Management budgeted cash flows from projects that have been completed under budget to those requiring additional funding, in the same amount, as presented in Appendix 2, with a net zero budget impact.

For example, as outlined in Appendix 2, additional expenditures were incurred in 2021 for the design and construction services associated with Keele Valley Closed Landfill, Green Lane Landfill, SWMS IT Business Intelligence Implementation, Commissioners Transfer Station and Dufferin Transfer Station.

Other projects experienced lower than anticipated spending in 2021, mainly for General Closed Landfill, Landfill Capacity Dev/Energy from Waste, Perpetual Care of Landfills, as well as the Green Lane Landfill Leachate Control System. As a result, funding from these projects is available for final reallocation to address the overspending on those projects, as noted above, that incurred higher expenditures in 2021.

CONTACT

Stephen Conforti
Executive Director, Financial Planning
Tel: 416-397-4229
Fax: 416-397-4465
Email: Stephen.Conforti@toronto.ca

Andy Cui
Manager, Financial Planning
Tel: 416-397-4207
Fax: 416-397-4465
Email: Andy.Cui@toronto.ca

SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1a - Additional Carry Forward Funding by Program
Appendix 1b - Additional Carry Forward Funding by Project
Appendix 2 - 2021 Year-End Adjustment Request