

Capital Variance Report for the Nine months Ended September 30, 2022

Date: November 24, 2022

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 nine month period ended September 30, 2022, as well as projected expenditures to December 31, 2022. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2022 Approved Capital Budget and Plan.

Table 1 below summarizes the City's 2022 actual capital expenditures compared with the 2022 approved capital budget for the period ended September 30, 2022 as well as the projected expenditures by December 31, 2022.

Table 1: Capital Variance Summary

| Table 1 Corporate Capital Variance Summary for the Period Ended September 30, 2022 | | | | | |
|--|-----------------------|---------------------------------|--------------|--------------------------------|--------------|
| | 2022 Approved Budget* | 2022 Q3 YTD Actual Expenditures | | 2022 Projected YE Expenditures | |
| | \$M | \$M | % | \$M | % |
| City Operations | 2,311.8 | 740.3 | 32.0% | 1,284.5 | 55.6% |
| Agencies | 1,669.0 | 653.8 | 39.2% | 1,426.3 | 85.5% |
| Tax Supported: | 3,980.8 | 1,394.1 | 35.0% | 2,710.9 | 68.1% |
| Rate Supported: | 1,546.4 | 602.6 | 39.0% | 1,173.4 | 75.9% |
| TOTAL | 5,527.2 | 1,996.7 | 36.1% | 3,884.3 | 70.3% |

*Note: Includes 2021 carry forward funding

The City's actual capital spending through the first nine months of 2022 is \$1.997 billion or 36.1% of the approved capital budget of the year. The projected spending rate is 70.3% by year-end based on submissions from City divisions and agencies, and as per previous experience actual year-end spending rates tend to be slightly lower than Q3 projections. Both the year-to-date spending and the year-end projection reflect the required pause in capital spending of \$300 million which accounts for roughly 5.4% of the total approved budget to address the 2022 COVID-19 support funding shortfall from the federal and provincial governments. This is to ensure the City maintains a balanced

2022 Operating Budget while addressing the financial impacts continuing to arise from the pandemic, subject to any material changes in federal and provincial COVID-19 support funding received by year-end. When excluding the \$300 million pause, the year-end projected spending rate is expected to be 75.7%.

Potential impact from the inter-governmental funding shortfall

The City continues to actively engage with Federal and Provincial counterparts at all levels to secure continued COVID-19 funding support. From March 2020 to year-end 2021, the City has benefited from nearly \$2.9 billion in COVID-19 related emergency funding commitments from the federal and provincial governments, with additional estimated \$567 million in funding support in 2022. The City is expecting to generate internal savings to further reduce COVID-19 pressure, resulting in a \$734 million COVID-19 funding shortfall in 2022, however the gap decreases to \$703 million if the City receives the continued full reimbursement of public health costs. In the event that continued COVID-19 funding is not forthcoming or adequate to fully address the financial impacts arising from the pandemic, the City's capital program will be materially impacted. As part of the City's balancing strategy, a \$300 million reduction to the 2022 Capital Budget will be required in addition to a \$403 million draw from the City's COVID-19 Backstop to ensure the City maintains a balanced 2022 Operating Budget while addressing the financial impacts continuing to arise from the pandemic.

Ongoing significant global supply chain issues triggered by COVID-19 have been worsened by the conflict in the Ukraine. In addition the labour market has made access to skilled trade workers more challenging which continue to severely impact capital delivery. Furthermore, with uncertainty around intergovernmental funding commitments to address COVID-19 financial pressures, the projected spend rate continues to be impacted in 2022. The supply chain and labour market challenges are being experienced in all sectors, all markets and jurisdictions.

Programs and Agencies have paused capital projects in 2022 and/or made commitments to do so by year end to address the potential provincial COVID-19 funding shortfall. Below are the main areas with the largest impacts from the pause of capital project spending (see appendix 6):

- TTC has identified \$87.0 million in paused spending largely impacting SOGR projects.
- Transportation Services has identified \$87.0 million in paused spending, mainly impacting transportation infrastructure rehabilitation projects.
- Corporate Real Estate Management has identified \$34.2 million in paused spending, mainly impacting state of good repair projects.
- Parks, Forestry & Recreation has identified \$27.7 million in paused spending, mainly impacting state of good repair projects for various buildings and structures.

Despite the challenges mentioned, the City will continue to plan annual capital projects in line with both affordability and achievability, based on the historical actual capacity

and in consideration of emerging challenges such as inflationary impacts and supply chain disruptions. The strategy is to build on improvements experienced to date and improve the capital spend rate in future years; fully utilizing approved funding and enabling any excess funding capacity to support additional capital priorities, while promoting realistic capacity to spend in light of external factors and challenges.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve in-year budget adjustments to the 2022-2031 Approved Capital Budget and Plan as detailed in Appendix 4.

FINANCIAL IMPACT

The capital expenditures in the first nine months of 2022 total \$1.997 billion and year-end expenditures are anticipated to increase to \$3.884 billion or 70.3% of the total 2022 Approved Capital budget. This spending rate includes the impacts of the expected \$300 million capital spending pause due to the COVID-19 support funding shortfalls.

Appendix 1 summarizes the YTD spending in the first nine months of 2022; 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 \$183.5 million cash flow reduction or deferral in 2022 and \$147.8 million addition or acceleration in 2023 – 2031, with an overall net impact of \$35.7 million cash flow reduction.

DECISION HISTORY

City Council approved the 2022 Rate-Supported Capital Budget of \$1.513 billion (meeting of December 15, 2021) and the 2022 Tax Supported Capital Budget of \$4.006 billion (meeting of February 17, 2022).

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 capital variance reports are submitted to Committees and City Council, to provide financial monitoring information on capital 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.

A staff report titled "2022 COVID-19 Intergovernmental Funding Update" was submitted to and approved by the City Council on May 11. The report provided an update to City Council on funding received or committed from the Federal and Provincial Governments against the budgeted amounts to support the City on the COVID-19 pandemic impact, as well as mitigating strategies in the event the budgeted funding cannot be received on time.

<https://www.toronto.ca/legdocs/mmis/2022/cc/bgrd/backgroundfile-225633.pdf>

COMMENTS

Table 2 outlines capital spending for Tax and Rate Supported Programs for the Nine months Ended September 30, 2022 for major service areas.

Table 2: Capital Variance Summary

| Table 2 Corporate Capital Variance Summary for the Period Ended September 30, 2022 | | | | | |
|---|-------------------------------------|--|--------------|---|--------------|
| | 2022 Approved Budget | 2022 Q3 YTD Actual Expenditures | | 2022 Projected YE Expenditures | |
| | \$M | \$M | % | \$M | % |
| Tax Supported Programs: | | | | | |
| Community and Social Services | 1,118.3 | 362.5 | 32.4% | 615.1 | 55.0% |
| Infrastructure and Development Services | 513.9 | 175.3 | 34.1% | 292.1 | 56.8% |
| Corporate Services | 559.3 | 175.7 | 31.4% | 336.1 | 60.1% |
| Finance and Treasury Services | 103.5 | 14.3 | 13.8% | 26.4 | 25.5% |
| Corporate Initiatives | 1.7 | 0.2 | 10.8% | 0.8 | 47.4% |
| Other City Programs | 15.2 | 12.4 | 81.7% | 14.0 | 92.6% |
| Sub Total City Operations | 2,311.8 | 740.3 | 32.0% | 1,284.5 | 55.6% |
| TTC | 1,375.6 | 554.0 | 40.3% | 1,219.7 | 88.7% |
| Transit Expansion (TTC) | 58.4 | 17.4 | 29.8% | 56.1 | 96.0% |
| Other Agencies | 235.0 | 82.5 | 35.1% | 150.6 | 64.1% |
| Sub Total - Tax Supported | 3,980.8 | 1,394.1 | 35.0% | 2,710.9 | 68.1% |
| Rate Supported Programs: | | | | | |
| Solid Waste Management | 73.8 | 29.3 | 39.7% | 63.1 | 85.5% |
| Toronto Parking Authority | 54.7 | 3.9 | 7.1% | 20.0 | 36.5% |
| Toronto Water | 1,417.8 | 569.5 | 40.2% | 1,090.3 | 76.9% |
| Sub Total Rate Supported | 1,546.4 | 602.6 | 39.0% | 1,173.4 | 75.9% |
| Total | 5,527.2 | 1,996.7 | 36.1% | 3,884.3 | 70.3% |

City Programs and Agencies project year-end capital expenditures of \$3.884 billion or 70.3% of the 2022 Approved budget. Capital spending will continue to be monitored over the final months of 2022 and any updates will be reflected in final capital variance reporting following confirmation of year-end results.

The following Programs and Agencies have significant capital programs, and are the main contributors to the overall spending rate:

- TTC (Base Programs) is expecting to spend \$1.220 billion or 88.7% of its 2022 Approved Capital Budget based on current year-end projections. The largest areas of expenditure are expected to be as follows:
 - State of Good Repair projects anticipated to be \$746.8 million, and the largest SOGR project being *Purchase of Buses - SOGR (\$126.2 million)*.
 - Growth projects anticipated to be \$301.3 million, and the largest growth project being *Other Buildings - Growth (\$231.1 million)*.
 - Legislated projects anticipated to be \$103.7 million, and the largest legislated project being *Easier Access-Phase III (\$81.2 million)*
- Toronto Water is projecting to spend \$1.090 billion or 76.9% of its 2022 Approved Capital Budget. The largest areas of expenditure are expected to be as follows:
 - State of Good Repair projects anticipated to be \$538.7 million, and the largest contributing project being *Dist Watermain replacement (\$101.2 million)*.
 - Service Improvement projects anticipated to be \$342.2 million, and the largest service improvement project being *Basement Flooding Relief (\$188.7 million)*.
 - Legislated projects anticipated to be \$123.5 million, and the largest legislated project being *Ashbridges Bay WWTP - Effluent System (\$67.4 million)*.
- Housing Secretariat is projecting to spend \$368.2 million or 52.7% of its approved 2022 Capital Budget. The largest expenditures are expected to be on *Rapid Housing Initiative-RHI Site Specific (\$159.1 million)* and *TCHC Building Repair Capital (\$135.0 million)*.

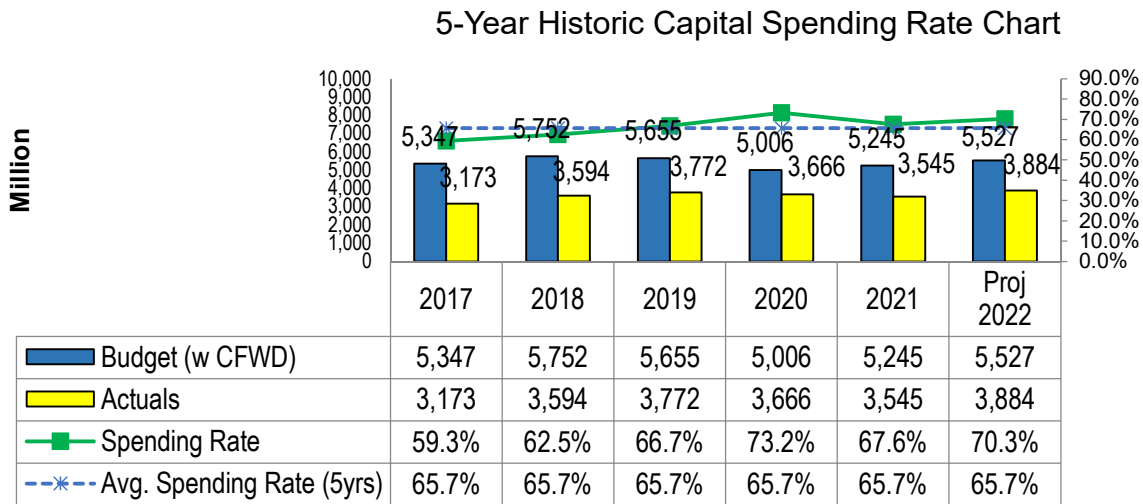
Additionally, Transportation Services and Corporate Real Estate Management have large capital programs which have a significant impact on the overall spending rate. These programs have year-end projections of \$270.8 million and \$226.7 million respectively.

Figure 1 on the next page compares the actual year-end spending rate in each of the years 2017 to 2021, and the projected 2022 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 2022's projected 70.3%. A dip in capital spending was experienced in 2021 largely due to supply chain and labour challenges. The issues continued to be challenges in 2022 and impact the spending capacity. Further challenges in cost escalation due to high inflation is expected to increase 2022 spend rates; however this will be partially offset by the estimated underspending associated

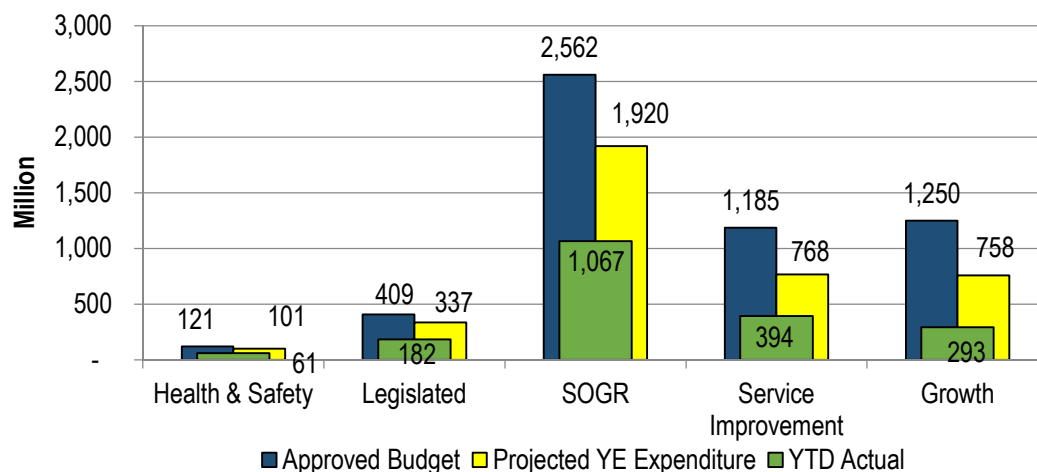
with projects that are paused to offset remaining 2022 COVID-19 funding shortfalls. As a result, the 2022 year-end spending rate is projected to be around 70.3% across all City programs.

Figure 1: 2017 - 2021 Spending and 2022 Projected Capital Spending Rate (\$ Millions)



The City's capital program encompasses five categories of capital work: Health & Safety projects, Legislated projects, State of Good Repair projects, Service Improvement projects, and Growth Related projects. Figure 2 on the next page compares the 2022 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2022 Approved Budget and Spending by Project Category (\$Millions)



Health & Safety and Legislated projects have the two highest projected spending rates of 83.6% and 82.3% respectively. State of Good Repair (SOGR) projects will account for the highest projected spending at \$1.920 billion which is in line with the City's continued emphasis on SOGR investment. It is also anticipated that about 60.6% of the Approved Capital Budget is on Growth and 64.8% in 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 2022 City's capital expenditure and spending rate by project category.

Table 3: City Budget and Projected Spending by Project Category (\$Millions)

| Project Category (\$M) - Q3 2022 | Approved Budget | YTD Actuals | Projected YE Expenditure | Spending Rate |
|----------------------------------|-----------------|--------------|--------------------------|---------------|
| Health & Safety | 121 | 61 | 101 | 83.6% |
| Legislated | 409 | 182 | 337 | 82.3% |
| SOGR | 2,562 | 1,067 | 1,920 | 75.0% |
| Service Improvement | 1,185 | 394 | 768 | 64.8% |
| Growth | 1,250 | 293 | 758 | 60.6% |
| Total | 5,527 | 1,997 | 3,884 | 70.3% |

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 2022

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 7 capital projects from the Tax Supported Programs that have been completed in the nine months of 2022 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$3.2 million and actual expenditures of \$2.0 million, resulted of a permanent underspend of \$1.2 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 last and is usually only issued upon a capital project's completion, with the proceeds of the debenture applied directly to the project.

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

EDC is requesting an increase of \$0.206 million in project costs and cash flow funding to its 2022 Council Approved Capital Budget, fully funded through a federal grant received (Canada Community Revitalization Fund - CCRF), to upgrade AODA at the Assembly Hall. The scope of work to include upgrading access/exit doors (door expansions, automated doors installation) and improving landscaping around the building to be more accessible. These will result in an improved, accessible outdoor space at Assembly Hall. The federal grant provides 75% of capital costs for this important community food sovereignty project. To advance the project and address the remaining funding requirements, a reallocation of \$0.069 million from the Assembly Hall Mechanical project is required.

In addition, EDC requests a reallocation of \$0.275 million in BIA Loan funding to Other Recoveries for the project FF Wexford Heights BIA Gateway Park to allow the BIA to reduce the loan amount needed for the project. There is no change to the scope of the project or project cost.

These in-year budget adjustments will result in zero net-debt impact to the 2022 Council Approved Capital Budget for EDC.

Seniors Services and Long-Term Care

SSLTC is requesting a cash flow reduction of \$0.6 million to realign cash flows to the overall budget among projects.

Transit Expansion

Through an ongoing discussion with Waterfront Secretariat, Transit Expansion has identified a need to fund a \$0.2 million Flood Protection Program to settle an expected third party vendor invoice. Transit Expansion requests reallocation between subprojects for \$0.2 million from Smart Track Stations to Flood Protection Program to fund the required payment.

Transportation

City Council's authority is requested to amend the 2022 -2031 Capital Budget and Plan for Transportation Services for a technical funding adjustment related to the Regent Park Revitalization project in the amount of \$0.788 million, and an acceleration of development charge funding in the amount of \$1.794 million for the New Courthouse Streetscape project due to work proceeding ahead of schedule.

Parks, Forestry and Recreation

PF&R is requesting adjustment of project cash flows to reflect the project delivery schedules and change in scope requirements for various park improvement projects. Overall these in-year adjustments reflect a total increase in project costs and associated cash flow funding of \$0.342 million in 2022 and \$1.739 million in 2023, for a total of \$2.081 million on non-debt funding sources (Section 42 First 5% and Above 5% Cash-in-lieu), with no overall impact to the 10 Year Capital Plan.

In addition, the nine month in-year adjustments include a deferral of \$0.120 million in cash flow from 2022 to 2023 for the David Crombie Park Revitalization & Area Parks project with the corresponding acceleration of \$0.120 million in cash flow for various park development projects to align with project schedules. The accelerations and deferrals have zero debt impact.

Fleet Services

The following in-year adjustments are being requested:

- Acceleration of \$2.45 million approved budget from 2023 to 2022 to support purchase of pumper fire truck, transit vans and supercrew vehicles for Fire.
- Accelerate \$0.048 million approved budget from 2023 to 2022 for purchase of a minivan for Public Health.
- Reallocate 2022 approved budget of \$70K to support Finch fuel site upgrade.

Technology Services

The Desktop Hardware Replacement project requires the commitment of future year funding in the amount of \$5.3 million in reserve funding to procure devices and hardware in advance due to the current global supply chain issue that is affecting all around the world. As vendors hold lower inventories of devices and hardware, TSD must place orders earlier to secure priority access as a first-come first-serve basis. If the funding adjustment is not approved, the impact could potentially lead to existing laptops that require to be refreshed become a risk in security (with hardware requirements unable to support updates) and even cause productivity to decline (as older laptop operates slower which affects staff efficiency).

Corporate Initiatives

In 2022, Ontario Place received a letter from the province confirming a resource funding agreement, therefore a reallocation of \$1.007 million in funding from debt to provincial funding is being requested.

TO Live

TO Live is requesting reallocation of 2022 cash flow funding of \$0.325 million from several projects to the Meridian Arts Centre AODA Project in order to address cost escalations brought on by supply chain issues, inflation, and labour shortages during and after COVID-19. The funds are being reallocated from the following projects: Meridian Hall - Health and Safety Upgrades - COVID-19; STLC - SOGR Projects;

Meridian Arts Centre - Health and Safety Upgrades - COVID-19; and Meridian Arts Centre - Technical Theatre Improvements. This in-year budget adjustment will increase project costs and 2022 cash flow funding by \$0.325 million for Meridian Arts Centre AODA project.

In addition, TO Live requests a reduction of debt funding of \$0.100 million from the Meridian Arts Centre - Roof Replacement (Flat) project as funding from the Eco-Roof Incentive Program has been secured for the project. There is no change to the scope of the project or project cost.

These in-year budget adjustments will result in a \$0.100 million debt decrease to the 2022 Council Approved Capital Budget for TO Live.

Solid Waste Management Services

As detailed in Appendix 4, City Council's authority is requested to amend the 2022 Capital Budget for Solid Waste Management Services by adjusting project cash flows to reflect program requirements. Overall, the adjustments reflect a total net cash flow reallocation of \$6.039 million and acceleration/deferral of \$1.337 million to the 2022 Capital Budget and 2023-2031 Capital Plan, Reserve Fund and recoverable debt funded.

- Reallocation of \$0.419 million within program to Perpetual Care of Landfills - 2018 from "Perpetual Care of Landfills – 2016". Funds have been reallocated to cover increased costs incurred in 2021 related to perpetual care of closed landfills.
- Reallocation of funding sources associated with Council approved 2022 Q1 In-Year Budget Adjustments consistent with appropriate sources of funding and long term funding planning.
- Reallocation of \$5.620 million between various Infrastructure & Resource Management projects. Funds have been reallocated to cover increased costs incurred in 2022.
- Acceleration of \$1.337 million within program of various Infrastructure & Resource Management projects. Funds have been accelerated to cover increased costs incurred in 2022. With a corresponding deferral of \$1.337 million within program of Business Services projects.

Toronto Parking Authority

TPA is requesting the reallocation of funding from 22 projects which have been cancelled, to the Four-year Bike Share Expansion Phase 1 project in the amount of \$2.992 million, to accelerate equipment purchases.

Toronto Transit Commission

TTC is requesting the following cash flow reduction, acceleration and reallocation of funding between projects:

- \$42.7 million reduction of funding due to changes in project scope.

- \$130.4 million acceleration of funding to progress projects in 2022, offset by \$258.5 million deferral of funding from 2022 to future years to align cash flows with updated timing and capital planning.
- \$13.6 million reallocation of funding between projects to transfer scope based on timing and scheduling.

City Clerk's Office

A technical adjustment is requested to swap the funding source for the Election Supply Logistics Transformation project from debt to reserve funding in the amount of \$2.15 million.

CONTACT

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

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

SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2022 Capital Variance and Projection Summary for the Nine months Ended September 30, 2022
Appendix 2 2022 Q3 Capital Projects Recommended for Full Closure
Appendix 3 2022 Q3 Major Capital Projects
Appendix 4 In-Year Adjustments for the Nine months Ended September 30, 2022
Appendix 5 2022 Q3 Capital Variance Dashboard by Program and Agency
Appendix 6 Preliminary List of Projects Paused or Applied Underspending Pending COVID-19 Funding