

Capital Variance Report for the Twelve months Ended December 31, 2022

Date: June 26, 2023

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 twelve month period ended December 31, 2022. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2022 Approved Capital Budget and Plan.

As illustrated in Table 1 below, City's 2022 capital expenditure was \$3.602 billion or 64.4% of the 2022 capital budget of \$5.597 billion for the period ended December 31, 2022.

- Tax Supported Programs and Agencies reported capital expenditures of \$2.524 billion representing 62.3% of their collective 2022 Approved Capital Budget of \$4.051 billion.
- Rate Supported Programs reported capital expenditures of \$1.078 billion, representing 69.7% of their collective 2022 Approved Capital Budget of \$1.546 billion.

Table 1: Capital Variance Summary

Table 1			
	2022 Approved Budget*	2022 YE Actual Expenditures	
	\$M	\$M	%
City Operations	2,380.3	1,219.1	51.2%
Agencies	1,670.3	1,305.2	78.1%
Tax Supported:	4,050.6	2,524.3	62.3%
Rate Supported:	1,546.4	1,078.0	69.7%
TOTAL	5,596.9	3,602.3	64.4%

**Note: Includes 2021 carry forward funding*

The City's actual capital spending through the twelve months of 2022 is \$3.602 billion. This represents a higher dollar value than the \$3.545 billion spent in 2021, partially as a result of cost escalation driven by inflation. However due to a materially larger base budget in 2022 compared to the prior year, coupled with \$300 million in paused capital spending initiated to help address the remaining 2022 COVID-19 funding shortfall, the spending rate is lower in 2022 compared to 2021.

The \$300 million pause in capital spending to address the COVID-19 funding shortfall that is further detailed below, accounts for roughly 7.4% of the 2022 tax supported capital budget, adjusting for this factor the 2022 spend rate would increase to 70.7%.

2022 spend rates were further impacted by ongoing significant global supply chain issues triggered by COVID-19 were worsened by the conflict in the Ukraine. In addition the labour market has made access to skilled trade workers more challenging which severely impacted capital delivery, these supply chain and labour market challenges were experienced in all sectors, all markets and jurisdictions.

Impacts resulting from the inter-governmental funding shortfall

In 2022, the City actively engaged with Federal and Provincial counterparts at all levels to secure continued COVID-19 funding support. The City continued to experience significant and unprecedented financial impacts, both in the form of added costs and revenue losses as a direct result of the COVID-19 pandemic. The 2022 Operating Budget was balanced based on the expectation of continued COVID-19 support funding from the Government of Canada and Province of Ontario with a total amount of \$1.4 billion. The City has received \$850 million in federal and provincial support funding and has generated internal savings of \$154 million compared to budgeted estimates, resulting in a remaining COVID-19 funding shortfall of \$395 million in 2022.

To address the remaining \$395 million shortfall, a backstop strategy is required to offset the COVID-19 related 2022 operating budget deficit. This includes a \$300 million adjustment to the 2022 Capital Budget consistent with the paused capital projects summarized below and detailed in appendix 6; as well as a further \$95 million one-time draw from the COVID-19 backstop.

Due to the absence of further Federal and Provincial contributions, the COVID-19 backstop will now be reduced to \$1.039 billion, which remains sufficient to manage 2023 budgeted COVID-19 impacts of \$933 million but absent further 2023 funding supports would be insufficient to address continued COVID-19 impacts expected in 2024 and future years, with 2024 impacts currently estimated to be \$720 million to \$927 million.

\$300 million Required Capital Adjustment

As previously reported to Council, the backstop strategy included the requirement to pause and potentially reduce up to \$300 million in approved 2022 Capital projects. The \$300 million reflected 7.4% of the 2022 Tax Supported Capital Budget and was proportionately allocated across all City Programs and Agencies based on the level of

Debt/Capital from Current (CFC) or Provincial Gas Tax funding within the 2022 Capital Budget.

The allocation predominantly impacts the City's capital investments for Toronto Transit Commission (TTC); Transportation Services; Parks, Forestry & Recreation; and Corporate Real Estate Management, which combined, reflect \$236.0 million or nearly 80% of the total \$300 million impact.

Appendix 6 of this report provides further details on impacted projects and notes the impacts by program or agency across the following three categories:

1. Cancelled or Permanently Reduced Projects (\$97.9 million)
 - Capital projects or programs initially paused to now be permanently reduced.
 - For reductions to capital programs (i.e. major road rehabilitation), specific capital work or discrete locations were not necessarily eliminated, rather 2023 work plans were developed with reduced available funds based on the requirement for paused capital work.
2. 2022 Budget Reductions with Initiatives Incorporated in Future Capital Plans (\$188.3 million)
 - Projects reduced from the 2022 Capital Plan and subsequently added back in futures years either through additions approved as part of the 2023 – 2032 Capital Plan or accommodated within approved and available future year funding.
3. Other Adjustments (\$13.7 million)
 - Predominantly reflects adjustments in available funding sources enabling new non-debt funding to be added to existing projects, freeing up CFC funding to be eliminated from the Capital Plan, without an overall change to total project funding.

2022 will mark the second instance since the start of the pandemic where capital projects were reduced or adjusted to offset COVID-19 impacts with the first occurrence applying \$263 million in 2020 capital underspending to the COVID-19 backstop. There is currently no further direction to pause or reduce any 2023 Capital work that was approved as part of the 2023 budget process.

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 4a.

2. City Council approve capital adjustments consistent with details provided in Appendix 6 and direct \$300 million in Capital from Current funding to the COVID-19 backstop (XQ0703) to be applied against the 2022 COVID-19 funding shortfall.

FINANCIAL IMPACT

2022 capital expenditures totalled \$3.602 billion of a \$5.597 billion total approved Capital Budget, factoring a \$300 million capital reduction due to the COVID-19 support funding shortfalls.

Appendix 1 summarizes the 2022 spending by City Programs and Agencies.

Appendix 4a includes recommended in-year capital budget adjustments to the 10-Year Capital Plan, which includes \$0.3 million of reallocations between projects in 2022 and \$1.2 million of reallocation of funding sources in 2022, with no net overall impact to cash flows for 2022 or the multiyear plan.

Appendix 6 provides details by Program and Agency of the \$300 million in 2022 capital adjustments required as part of the City's COVID-19 backstop strategy.

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).

Incremental carry forward was subsequently approved by City Council following the year-end close at the May 11, 2022 meeting leading to a total \$5.597 billion 2022 capital budget, including the 2022 in-year capital budget adjustments.

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.

During 2022 two separate reports were submitted to and approved by City Council, providing an update 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.

- A staff report titled "2022 COVID-19 Intergovernmental Funding Update" was approved by City Council on May 11, 2022.
<https://www.toronto.ca/legdocs/mmis/2022/cc/bgrd/backgroundfile-225633.pdf>
- A staff report titled "Supplementary Information to the Operating Variance Report for the Nine Months Ended September 30, 2022 " was approved by City Council on December 8 2022.
<https://www.toronto.ca/legdocs/mmis/2023/cc/bgrd/backgroundfile-230485.pdf>

COMMENTS

Table 2 outlines capital spending for Tax and Rate Supported Programs for the Twelve months Ended December 31, 2022 for major service areas.

Table 2: Capital Variance Summary

Table 2 Corporate Capital Variance Summary for the Period Ended December 31, 2022			
	2022 Approved Budget	2022 YE Actual Expenditures	
	\$M	\$M	%
Tax Supported Programs:			
Community and Social Services	1,125.5	567.0	50.4%
Infrastructure and Development Services	572.8	313.0	54.6%
Corporate Services	561.7	302.3	53.8%
Finance and Treasury Services	103.5	23.0	22.2%
Corporate Initiatives	1.7	0.4	25.3%
Other City Programs	15.2	13.3	88.1%
Sub Total City Operations	2,380.3	1,219.1	51.2%
TTC	1,374.8	1,143.2	83.2%
Transit Expansion (TTC)	59.2	31.3	52.8%
Other Agencies	236.3	130.7	55.3%
Sub Total - Tax Supported	4,050.6	2,524.3	62.3%
Rate Supported Programs:			
Solid Waste Management	73.8	54.2	73.5%
Toronto Parking Authority	54.7	16.4	30.0%
Toronto Water	1,417.8	1,007.4	71.1%
Sub Total Rate Supported	1,546.4	1,078.0	69.7%
Total	5,596.9	3,602.3	64.4%

City Programs and Agencies actual year-end capital expenditures totalled \$3.602 billion. This is a higher spending amount than the \$3.545 billion spent in 2021, which is partially

attributed to cost escalation driven by inflation. However the base budget for 2022 is materially higher than the previous year, causing the spend rate to be lower. Furthermore, the \$300 million in required capital adjustments, which accounts for roughly 7.4% of the 2022 tax supported capital budget, also contributed to the 2022 spend rate being lower than the 5 year historical average of 66.7%.

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

- TTC (Base Programs) spent \$1.143 billion or 83.2% of its 2022 Approved Capital Budget. The largest areas of expenditure are as follows:
 - State of Good Repair projects were \$672.9 million, and the largest SOGR project being *Purchase of Buses - SOGR (\$125.1 million)*.
 - Growth projects were \$287.1 million, and the largest growth project being *Other Buildings - Growth (\$234.7 million)*.
 - Legislated projects were \$99.0 million, and the largest legislated project being *Easier Access-Phase III (\$80.5 million)*

- Toronto Water spent \$1.007 billion or 71.1% of its 2022 Approved Capital Budget. The largest areas of expenditure are as follows:
 - State of Good Repair projects were \$503.2 million, and the largest contributing project being *Watermain Structural Lining (\$63.8 million)*.
 - Service Improvement projects were \$318.5 million, and the largest service improvement project being *BF Tunnel - Construction (\$61.3 million)*.
 - Legislated projects were \$114.3 million, and the largest legislated project being *Outfall Construction (\$36.1 million)*.

- Housing Secretariat spent \$345.5 million or 49.5% of its approved 2022 Capital Budget. The largest expenditures were on SOGR (largest project being TCHC Building Repair Capital totalling \$160.1 million), and Growth (largest project being Rapid Housing Initiative-RHI Site Specific totalling \$144.1 million).

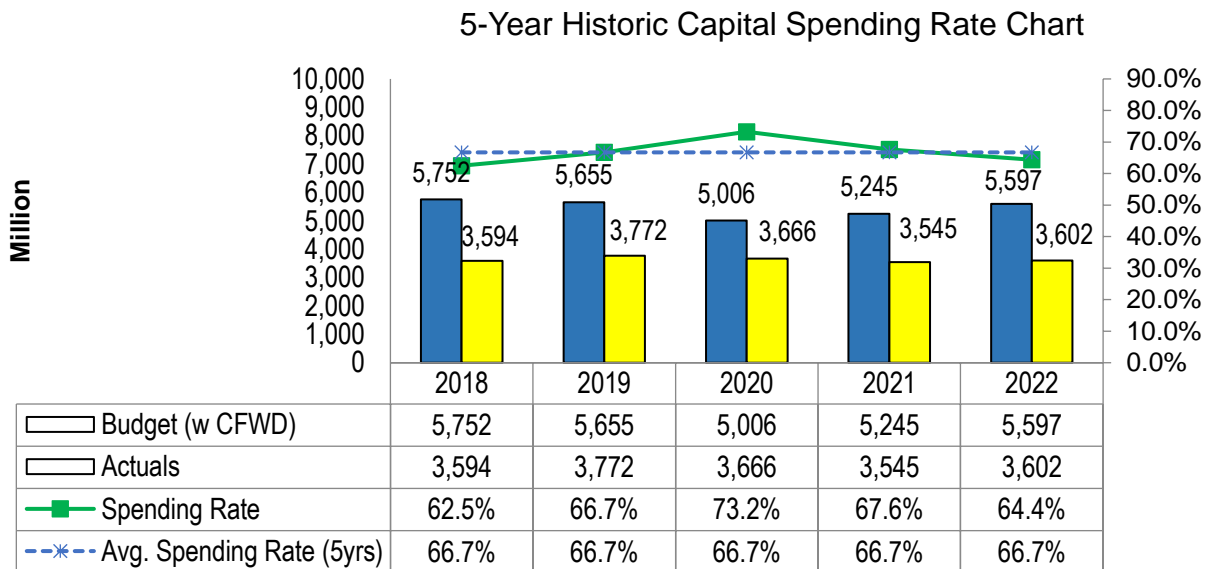
Additionally, Transportation Services and Corporate Real Estate Management have large capital programs which have a significant impact on the overall spending rate. These programs have spent rates of 74.1% and 56.5% respectively. Both programs were materially impacted by the requirement to pause capital projects and otherwise would have had significantly better spend rates for 2022.

Figure 1 on the next page compares the actual year-end spending rate in each of the years 2018 to 2022 and the five year average 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 on the next page, the City's annual spending rate is trending up from year 2018's 62.5% to 2020's 73.2%. A dip in capital spending was experienced in 2021 largely due to supply chain and labour challenges. Despite the higher spending

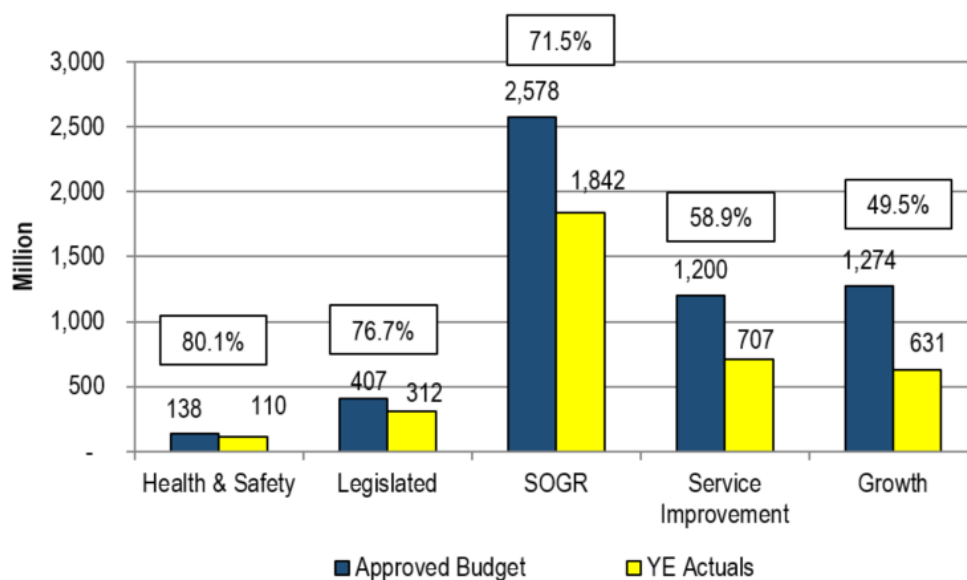
amount in 2022, the spending rate as percentage of total budget is lower due to the reasons discussed above.

Figure 1: 2018 - 2022 Spending and Spend 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 below compares the 2022 Total (Tax and Rate) Approved Budget and year-end actual spending 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 80.1% and 76.7% respectively. State of Good Repair (SOGR) projects account for the highest actual spending at \$1.842 billion which is in line with the City's continued emphasis on SOGR investments. In addition, 58.9% of the approved Capital Budget for

Service Improvement projects and 49.5% of the approved Capital Budget for Growth related projects were spent by year-end. These lower spending rates are common for these categories of projects which tend to be more complex, include various stakeholders and have dependencies on other factors. 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 fourth quarter 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 2a details 38 capital projects from the Tax Supported Programs that have been completed in Q4 of 2022 by various City Programs and Agencies which now can be closed. Together these capital projects have a combined budget of \$365.4 million and actual expenditures of \$365.1 million, with a permanent underspend of \$0.3 million.

Appendix 2b details projects to be partially closed with 68 capital sub-projects that can be closed. Together these sub-projects have a combined budget of \$60.8 million and actual expenditures of \$58.8 million, with a permanent underspend of \$2.0 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 4a. It is recommended that Council approve the following in-year adjustments, as outlined below:

Solid Waste Management Services

As detailed in Appendix 4a, 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 \$0.334 million within the 2022 Capital Budget, Reserve Fund and recoverable debt funded.

- Reallocation of \$0.334 million within program. Funds have been reallocated to cover increased costs incurred in 2022.
- b) Reallocation of funding sources to reflect the appropriate 2022 sources of funding.

In-Year Adjustments Approved by CFO under Delegated Authority during 2022 Council Recess

2022 was an election year and the 2018 – 2022 City Council concluded its final meeting in July. In advance of City Council recess, to ensure that City business and divisional operating and capital activities continued to move forward, a report was approved by City Council to expand the delegation of authority to the Chief Financial Officer & Treasurer to facilitate the approval of necessary budget adjustment requests in accordance with the Financial Control By-Law and the City's financial management policies: <https://www.toronto.ca/legdocs/mmis/2022/cc/bgrd/backgroundfile-228773.pdf>

Council requested that any exercise of the authorities delegated to staff through this report will be reported back by staff to the appropriate Standing Committee in early 2023. Appendix 4b attached to this report details the in-year budget adjustments approved by the CFO under this delegation of authority during the council recess to fulfill this requirement.

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 Summary for the Twelve months Ended December 31, 2022

Appendix 2a 2022 YE Capital Projects Recommended for Full Closure

Appendix 2b 2022 YE Capital Projects Recommended for Partial Closure

Appendix 3 2022 YE Major Capital Projects

Appendix 4a In-Year Adjustments for the Twelve months Ended December 31, 2022

Appendix 4b In-Year Adjustments Approved by CFO under Delegated Authority during 2022 Council Recess

Appendix 5 2022 YE Capital Variance Dashboard by Program and Agency

Appendix 6 Reduced Capital Project Spending to Address COVID-19 Funding Shortfall