

Capital Variance Report for the Six months Ended June 30, 2023

Date: September 18, 2023

To: Executive Committee

From: Interim 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 months period ended June 30, 2023, as well as the year-end projected expenditures to December 31, 2023. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2023 Adopted Capital Budget and Plan.

Table 1 below summarizes the City's 2023 actual capital expenditures compared with the 2023 approved capital budget for the Six months period ended June 30, 2023 and the projected expenditures by December 31, 2023.

Table 1: Capital Variance Summary

Table 1 Corporate Capital Variance Summary for the Period Ended June 30, 2023					
	2023 Approved Budget*	2023 Q2 Actual Expenditures		2023 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
City Operations	2,651.6	658.1	24.8%	1,963.6	74.1%
Agencies	1,735.3	541.2	31.2%	1,554.7	89.6%
Tax Supported:	4,386.9	1,199.3	27.3%	3,518.3	80.2%
Rate Supported:	1,562.3	378.7	24.2%	1,318.0	84.4%
TOTAL	5,949.2	1,578.1	26.5%	4,836.3	81.3%

**Note: Includes 2022 carry forward funding*

The City's actual capital spending through the first six months of 2023 is \$1.578 billion or 26.5% of the Adopted Capital budget of the year. The projected spending rate is 81.3% by year-end based on submissions from City Programs and Agencies.

RECOMMENDATIONS

The Interim Chief Financial Officer and Treasurer recommends that:

1. City Council approve in-year budget adjustments to the 2023-2032 Adopted Capital Budget and Plan as detailed in Appendix 4.

FINANCIAL IMPACT

The capital expenditures in the first six months of 2023 total \$1.578 billion and year-end expenditures are anticipated to increase to \$4.836 billion or 81.3% of the total 2023 Adopted Capital budget.

Appendix 1 summarizes the YTD spending in the first six months of 2023; 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 Budget and Plan, which includes a net of \$274.587million of reallocations between projects and an additional funding of \$25.243 million primarily funded by reserves and third party funding.

DECISION HISTORY

The 2023 Tax and Rate Supported Capital Budget of \$5.578 billion received municipal adoption following the Council meeting of February 15, 2023.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.MPB4.1>

As well, the incremental carry forward from 2022 of \$360.621 million was adopted on May 10, 2023 during the Council meeting. The total carry forward amount being carried to 2023 and future years is \$1.683 billion.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX4.4>

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 Adopted 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 Six months Ended June 30, 2023 for major service areas.

Table 2: Capital Variance Summary

Table 2					
	2023 Approved Budget	2023 Q2 Actual Expenditures		2023 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
Tax Supported Programs:					
Community and Social Services	943.2	157.0	16.6%	557.2	59.1%
Infrastructure and Development Services	983.1	309.4	31.5%	882.8	89.8%
Corporate Services	616.6	170.0	27.6%	422.1	68.5%
Finance and Treasury Services	103.0	20.5	19.9%	96.7	93.9%
Corporate Initiatives	0.8	0.3	39.2%	0.6	75.0%
Other City Programs	4.8	0.9	18.8%	4.2	86.2%
Sub Total City Operations	2,651.6	658.1	24.8%	1,963.6	74.1%
TTC	1,361.8	418.2	30.7%	1,261.7	92.6%
Transit Expansion (TTC)	87.4	38.0	43.4%	66.1	75.6%
Other Agencies	286.1	85.0	29.7%	227.0	79.3%
Sub Total - Tax Supported	4,386.9	1,199.3	27.3%	3,518.3	80.2%
Rate Supported Programs:					
Solid Waste Management	90.8	16.4	18.1%	74.3	81.8%
Toronto Parking Authority	82.5	8.2	10.0%	70.1	85.0%
Toronto Water	1,389.0	354.1	25.5%	1,173.6	84.5%
Sub Total Rate Supported	1,562.3	378.7	24.2%	1,318.0	84.4%
Total	5,949.2	1,578.1	26.5%	4,836.3	81.3%

City Programs and Agencies project year-end capital expenditures to be \$4.836 billion. The projected spend rate of 81.3% based on program submissions will continue to be monitored throughout 2023 and any updates will be reflected in capital variance reporting during the year.

The following Programs and Agencies have significant capital programs, and are the main contributors to the overall actual capital spending for 2023:

- TTC (Base Programs) is projected to spend \$1.262 billion or 92.6% of its 2023 Adopted Capital Budget based on current year-end projections. The largest areas of expenditure are expected to be as follows:

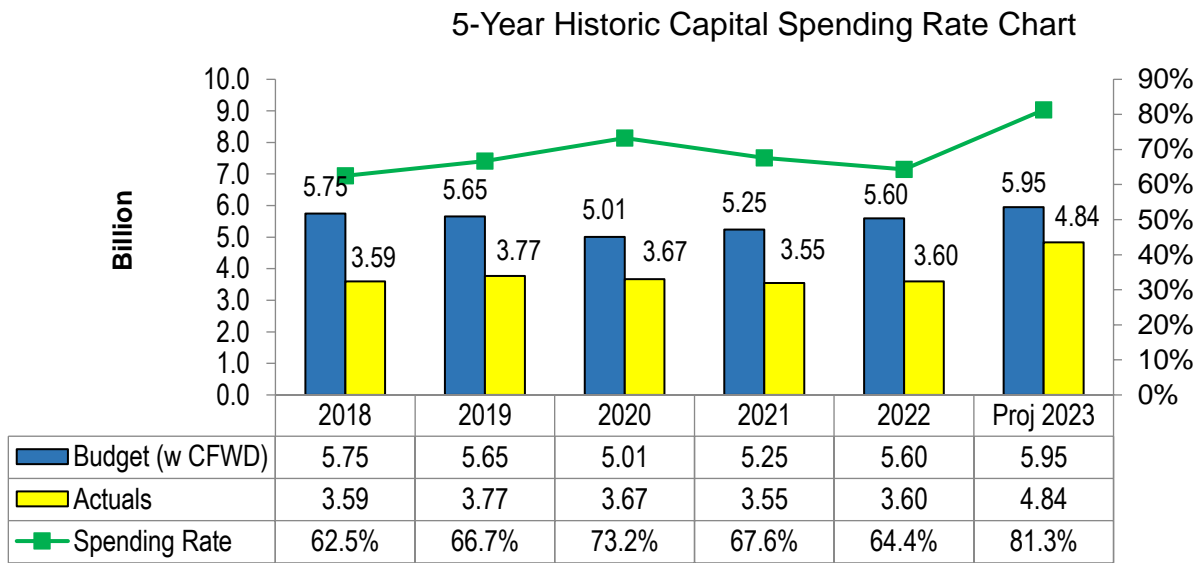
- State of Good Repair projects were \$950.9 million, and the largest SOGR project being *Purchase of Buses - SOGR (\$246.5 million)*.
 - Legislated projects were \$128.8 million, and the largest legislated project being *Easier Access-Phase III (\$107.2 million)*
 - Service Improvement were \$94.2 million, and the largest growth project being *Line 1 Capacity Enhancement (\$23.1 million)*.
- Toronto Water is projecting to spend \$1.174 billion or 84.5% of its 2023 Adopted Capital Budget. The largest areas of expenditure are expected to be as follows:
 - State of Good Repair projects were \$536.2 million, and the largest contributing project being *Watermain Replacement (\$77.0 million)*.
 - Service Improvement projects were \$403.1 million, and the largest service improvement project being *Basement Flooding Relief (\$65.0 million)*.
 - Growth projects were \$117.0 million, and the largest growth project being *New Services Connections – Site Servicing (\$28.4 million)*.
- Transportation Services is projecting to spend \$391.5 million or 85.4% of its adopted 2023 Capital Budget. The largest expenditures are expected to be on SOGR (largest project being Local Road Rehabilitation totalling \$66.2 million), and Health & Safety (largest project being City Bridge Rehabilitation totalling \$22.3 million).

Additionally, Transit Expansion under Infrastructure and Development Services and Housing Secretariat have large capital programs which have a significant impact on the overall spending rate. These programs have year-end projections of \$379.5 million and \$256.0 million respectively.

Figure 1 in the next page compares the actual year-end spending rate in each of the years 2018 to 2022, and the projected 2023 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.

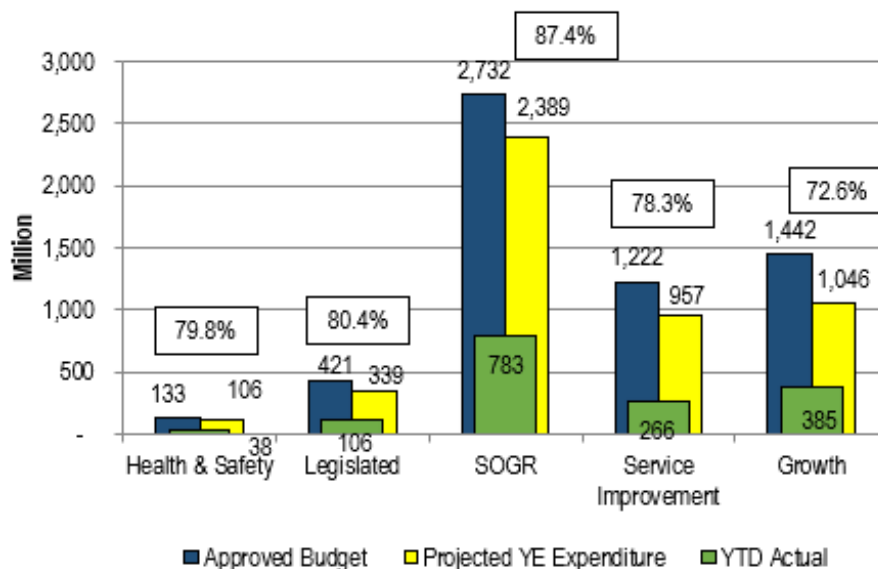
As indicated in the annual chart, the City's annual spending rate was trending up from the year 2018 with 62.5% to the 2020 spend rate of 73.2%. A dip in capital spending was experienced in 2021-2022 largely due to challenges in labour, material and resources. As of the Six months ended June 30, 2023, the City has spent \$1.578 billion, which is higher than the 5 year average for the same six-month period of \$1.261 billion. Capital spending will continue to be reviewed over the course of the year, with updates provided in future variance reports that will benefit from actual experience over capital intensive months.

Figure 1: 2018 - 2022 Spending and 2023 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 compares the 2023 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2023 Adopted Budget and Spending by Project Category (\$Millions)



State of Good Repair (SOGR) and Legislated projects have the two highest projected spending rates of 87.4% and 80.4% respectively. SOGR projects also account for the highest projected year-end spending at \$2.389 billion which is in line with the City's continued emphasis on SOGR investments. It is also anticipated that about 79.8% of the Adopted Health and Safety capital projects, 78.3% of Service Improvement and

72.6% of Growth related projects will be spent by year-end. Table 3 in the next page outlines 2023 City's capital expenditure and spending rate by project category.

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

Project Category (\$M) - Q2 2023	Approved Budget	YTD Actual	Projected YE Expenditure	Spending Rate
Health & Safety	133	38	106	79.8%
Legislated	421	106	339	80.4%
SOGR	2,732	783	2,389	87.4%
Service Improvement	1,222	266	957	78.3%
Growth	1,442	385	1,046	72.6%
Total	5,949	1,578	4,836	81.3%

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 six month of 2023

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 23 capital projects from the Tax Supported Programs that have been completed in second quarter of 2023 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$454.6 million and actual expenditures of \$454.1 million, with a permanent underspend of \$0.5 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)

The recommended 2023 in-year budget adjustment for EDC includes an increase of \$0.100 million in project cost and cash flow funding to its 2023 Council Approved Capital Budget, fully funded through a recovery from the Wexford Heights BIA, to complete the current project at Wexford Heights BIA for the construction of a Gateway Parkette. The project improves the site safety as it addresses the grading in the area to avoid ponding and the installation of grates to cover large gaps in the project area. The project has incurred extra costs related to the design deficiencies related to custom identity columns, grading, tree grate installation and tree replacement work. To complete this project, \$0.100 million recoverable from the Wexford Heights BIA must be allocated to WBS account CED124 to pay for these extra costs.

In addition, the recommended 2023 in-year budget adjustment for EDC includes a reallocation between Reserve Funds of \$0.255 million for the Indigenous Centre for Innovation and Entertainment. There is no change to the scope of the project or project cost.

These in-year budget adjustment will result in zero debt impact to the 2023 Council Approved Capital Budget for EDC.

Parks, Forestry & Recreation (PF&R)

Requested adjustments include the acceleration and deferral of cash flow between projects. A number of projects including construction of the North East Scarborough Community Centre and Noble Park Basketball Court were able to advance project spending and require acceleration of \$9.989 million in future year cash flow commitments to 2023, offset by a deferral of the same amount of cash flow from 2023 to 2024 for other project delays. Overall project costs remain unchanged.

A correction to the capital account is required for the CAMP (SGR) Arenas project, with \$20.440 million in cash flow over 2023 (\$0.495 million) and 2024 (\$19.945 million) being reallocated from CPR121-48-01 to CPR121-49-01. There is no impact to the project cost or overall debt requirements.

In addition, construction cost escalation has resulted in a total increase in project costs of \$1.491 million and associated cash flow funding of \$0.391 million in 2023 and \$1.100 million in 2024 fully funded from non-debt funding sources (Development Charges and Section 42 First 5% Cash-in-lieu and the Lakeshore Arena Capital Reserve Fund):

- \$0.234 million cash flow added to 2023 for the Tom Riley Park Playground (Ward 3);

- \$0.014 million cash flow added to 2023 for the Milliken Park Fitness Pod Installation (Ward 23);
- \$0.144 million cash flow added to 2023 for the CAMP (SGR) Arenas (Lakeshore Lions Arena - Ward 3);
- \$0.200 million cash flow added to 2024 for the Lawrence Heights Baycrest Park (Ward 8); and
- \$0.900 million cash flow added to 2024 for the Yonge Street Linear Parks Improvements (Ward 13)

These amendments have no impact to the timing of debt requirements over the 10-year period and will align with the allocation of debt within the 2023-2032 Council Approved Capital Budget and Plan.

Shelter, Support & Housing Administration (SSHA)

The in-year budget adjustments consist of merging the HVAC Upgrades (CHS-058) and Covid Resiliency (CHS-054) budgets totalling \$6.816 million, as both relate to the upgrade of HVAC systems to achieve 6 Air Changes per Hour (ACPH) in selected shelter sites across the City. The merger of both projects will allow for construction and consultant fees to be reflected under a single HVAC project to enable better coordination and financial management of the projects and resources, resulting in greater efficiency.

There is no request to increase project costs or 2023 cashflows and all sites identified for HVAC work will still be completed within allocated budgets.

Housing Secretariat

To reallocate a cash flow of \$17.728 million between the Housing and Homelessness Response Plan (HSID) and Emergency Housing Initiative (EHI). The funding was previously approved by the Council for housing initiative, and the purpose of the reallocation is to realign the funding to the specific project.

Technology Services Division (TSD)

The Desktop Hardware and Network Asset Replacement projects require the commitment of future year funding in the amount of \$7.164 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).

The Domino Decommissioning project is requiring \$0.127 million in additional funds due to delays from resourcing issues and cyber security reviews prior to implementation in production mode.

Transportation Services

The Capital budget of additional \$8.718 million adjustments are primarily addressing the additional capital works funded by third parties that are bundled with City contracts (i.e. TTC track contracts, City Bridge contracts, Studies led by City).

Exhibition place

The in-year budget adjustments are related to reallocations of 2023 cash flow funding of \$8.735 million from other SOGR projects to accommodate urgency and cost escalations of both the Industry Building Roof and Food Building Roof projects

- \$4.215 million to Industry Building Roof project which requires immediate replacement due to multiple severe leaks (roof is more than 40 years old) and with recent cost escalations due to material shortages and inflation, there is a risk of significant price increase in future for the same work. Hence, it is prudent to complete entire project in one session as compared to multiple phases.
- \$4.520 million to Food Building Roof project for which the accepted bid (total 4 bids received in response to the tender) exceeds the original approved budget for this project due to price escalation of construction materials and labour as well as higher inflation. Consultant has also reviewed bid price and confirmed price escalations in other jurisdictions (GTHA) for similar work. Consultant has recommended to proceed with an award to the lowest compliant bidder.

The debt or CFC funded reallocations in the subprojects are netted to zero individually. Thus, there is no debt impact on the 2023 Council Approved Capital Budget for Exhibition Place as a result of these reprioritization, Projects which have been reallocated are rescheduled/reprioritized within the 10-Year Capital Plan for Exhibition Place.

Toronto Police Service

The in-year budget adjustments consist of a total increase of project cost and associated cash flow funding of \$7.200 million for the Infrastructure Lifecycle 2023-2032 project, fully funded by the Toronto Police Service's Vehicle and Equipment Reserve (\$3.700 million) and the City's Insurance Reserve Fund (\$3.500 million). These in-year budget adjustments, which have been approved by the Police Services Board at its meeting in June and September 2023, are critical for Toronto Police Service to address relocation costs associated with setting up a temporary data centre and to implement a multi-year technology roadmap and server replacements due to new systems and storage requirements at the data centre.

Toronto Public Library

The in year adjustment consists of:

- A deferral of \$1.374 million from 2023 to 2024 to realign the cash flow of Multi-Branch and Service and Digital Modernization projects.
- A reallocation of cash flows based on the final carry forward fundings among various capital projects. This update results in no impact on the overall 2022 budget reductions.
- An increase of \$0.570 million (\$0.285 million in 2022 and \$0.285 million in 2023) in development charges funding to realign the cash flow of Northern District Renovation and High Park Renovation & Expansion.
- A reduction of \$1.284 million in 2023 cash flow due to accelerated spending in 2022 for Dawes Road Library and Technology Asset Management Program. The approved project costs remain unchanged for the two projects.

Toronto Public Health

The in-year budget adjustment is to accelerate \$0.501 million in previously approved Provincial funding from 2024 to 2023 for the New Dental Clinic East Toronto Health Partners project as the project is progressing ahead of schedule to complete by Nov. 30, 2023.

Toronto Transit Commission (TTC)

The in-year budget adjustments consist of \$226.414 million reallocation of funding between projects to accelerate/defer work and/or transfer scope to reflect timing and scheduling of projects and align with year-end projections.

- \$83.049 million reallocation mainly between Easier Access project and its subprojects.
- \$45.000 million reallocation mainly between Easier Access-Phase III and Line 1 Capacity Enhancement.
- \$33.314 million reallocation mainly between Subway Track and its subprojects.
- \$65.051 million reallocation, acceleration or deferrals on various projects.

Solid Waste Management Services (SWMS)

City Council's authority is requested to amend the 2023 Capital Budget for Solid Waste Management Services by adjusting project cash flows to reflect program requirements.

- Reallocation of \$0.467 million between various Infrastructure & Resource Management projects. Funds have been reallocated from 2026 to cover anticipated budget shortfalls.
- Deferral of \$3.0 million of IT projects into 2024 and 2025 due to anticipated lower spending in 2023, in which is offset by an acceleration of \$3.0 million in Green Lane from 2026 to 2023 for the anticipated purchase of 3 buffer land properties identified by Corporate Real Estate Management division.
- Reallocation of \$0.655 million between Long Term Waste Management Strategy projects to cover anticipated increase in project cost.
- Technical adjustment of funding sources between Recoverable debt and Reserve Funds to reflect the appropriate 2023 sources of funding.

Toronto Parking Authority

An adjustment of \$5.768 million is recommended for the project for CP 221 at 121 St. Patrick St. This amount is being accelerated from 2024 to 2023. As a result of this requirement, funding for other projects such as St. Lawrence Market North Garage and CP58 Garage Modernization have been deferred to 2024 based on latest estimated time of their completion.

Further adjustments totalling \$17.633 million are also being recommended to projects within 2023 and 2024 as the TPA continues to rationalize their capital plan by consolidating related projects together under new & revised WBS accounts with a net zero impact on the 2023/2024 Plan.

City Wide FGT/Debt/CFC Reallocation

Funding adjustments are required consistent with the City's COVID backstop strategy to recognize \$167 million in one-time Federal Gas Tax capital funding that had previously been applied to the City's COVID backstop. An equivalent adjustment will also be made to CFC funding, maintaining the corporate COVID backstop while applying the Gas Tax funds consistent with their required use.

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SIGNATURE

Stephen Conforti
Interim Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2023 Capital Variance Summary for the Six months Ended June 30, 2023
Appendix 2A 2023 Q2 Capital Projects Recommended for Full Closure
Appendix 2B 2023 Q2 Capital Projects Recommended for Partial Closure
Appendix 3 2023 Q2 Major Capital Projects
Appendix 4 In-Year Adjustments for the Six months Ended June 30, 2023
Appendix 5 2023 Q2 Capital Variance Dashboard by Program and Agency