

## Capital Variance Report for the Nine Months Ended September 30, 2023

**Date:** November 20, 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 Nine-months period ended September 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 2023-2032 Approved Capital Budget and Plan.

Table 1 below summarizes the City's 2023 actual capital expenditures compared with the 2023 Approved Capital Budget for the Nine-months period ended September 30, 2023 and the projected expenditures by December 31, 2023.

**Table 1: Capital Variance Summary**

Table 1					
	2023 Approved Budget*	2023 Q3 Actual Expenditures		2023 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
City Operations	2,652.3	1,094.7	41.3%	1,736.0	65.5%
Agencies	1,739.5	905.9	52.1%	1,477.7	84.9%
<b>Tax Supported:</b>	<b>4,391.8</b>	<b>2,000.6</b>	<b>45.6%</b>	<b>3,213.7</b>	<b>73.2%</b>
<b>Rate Supported:</b>	<b>1,562.3</b>	<b>730.7</b>	<b>46.8%</b>	<b>1,296.7</b>	<b>83.0%</b>
<b>TOTAL</b>	<b>5,954.0</b>	<b>2,731.2</b>	<b>45.9%</b>	<b>4,510.4</b>	<b>75.8%</b>

*\*Note: Includes 2022 carry forward funding*

The City's actual capital spending through the first nine months of 2023 is \$2.731 billion or 45.9% of the Approved Capital Budget of the year. The projected spending rate is 75.8% by year-end based on submissions from City Programs and Agencies.

## **RECOMMENDATIONS**

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The Chief Financial Officer and Treasurer recommends that:

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

## **FINANCIAL IMPACT**

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The capital expenditures in the first nine months of 2023 total \$2.731 billion and year-end expenditures are anticipated to increase to \$4.510 billion or 75.8% of the total 2023 Approved Capital budget.

Appendix 1 summarizes the YTD spending in the first nine 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 acceleration of \$14.569 million, reallocations of \$140.070 million between projects, and a net reduction of funding of \$6.224 million primarily funded by reserves.

## **DECISION HISTORY**

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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 Approved 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 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 outlines capital spending for Tax and Rate Supported Programs for the Nine-months period ended September 30, 2023 for major service areas.

**Table 2: Capital Variance Summary**

Table 2					
	2023 Approved Budget	2023 Q3 Actual Expenditures		2023 Projected YE Expenditures	
	\$M	\$M	%	\$M	%
<b>Tax Supported Programs:</b>					
Community and Social Services	942.9	295.9	31.4%	502.2	53.3%
Infrastructure and Development Services	983.1	511.3	52.0%	812.8	82.7%
Corporate Services	617.6	255.3	41.3%	373.6	60.5%
Finance and Treasury Services	103.0	30.2	29.3%	43.9	42.6%
Corporate Initiatives	0.8	0.5	66.1%	0.7	85.7%
Other City Programs	4.8	1.5	30.3%	2.7	55.9%
<b>Sub Total City Operations</b>	<b>2,652.3</b>	<b>1,094.7</b>	<b>41.3%</b>	<b>1,736.0</b>	<b>65.5%</b>
TTC	1,362.0	729.4	53.6%	1,202.8	88.3%
Transit Expansion (TTC)	87.5	47.4	54.2%	66.2	75.7%
Other Agencies	290.0	129.0	44.5%	208.7	71.9%
<b>Sub Total - Tax Supported</b>	<b>4,391.8</b>	<b>2,000.6</b>	<b>45.6%</b>	<b>3,213.7</b>	<b>73.2%</b>
<b>Rate Supported Programs:</b>					
Solid Waste Management	90.8	31.8	35.0%	64.8	71.4%
Toronto Parking Authority	82.5	30.8	37.3%	60.3	73.1%
Toronto Water	1,389.0	668.0	48.1%	1,171.6	84.3%
<b>Sub Total Rate Supported</b>	<b>1,562.3</b>	<b>730.7</b>	<b>46.8%</b>	<b>1,296.7</b>	<b>83.0%</b>
<b>Total</b>	<b>5,954.0</b>	<b>2,731.2</b>	<b>45.9%</b>	<b>4,510.4</b>	<b>75.8%</b>

City Programs and Agencies project year-end capital expenditures to be \$4.510 billion. The projected spend rate of 75.8% 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 City 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 \$1.203 billion or 88.3% of its 2023 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 were \$896.5 million, and the largest SOGR project being *Purchase of Buses - SOGR (\$207.6 million)*.

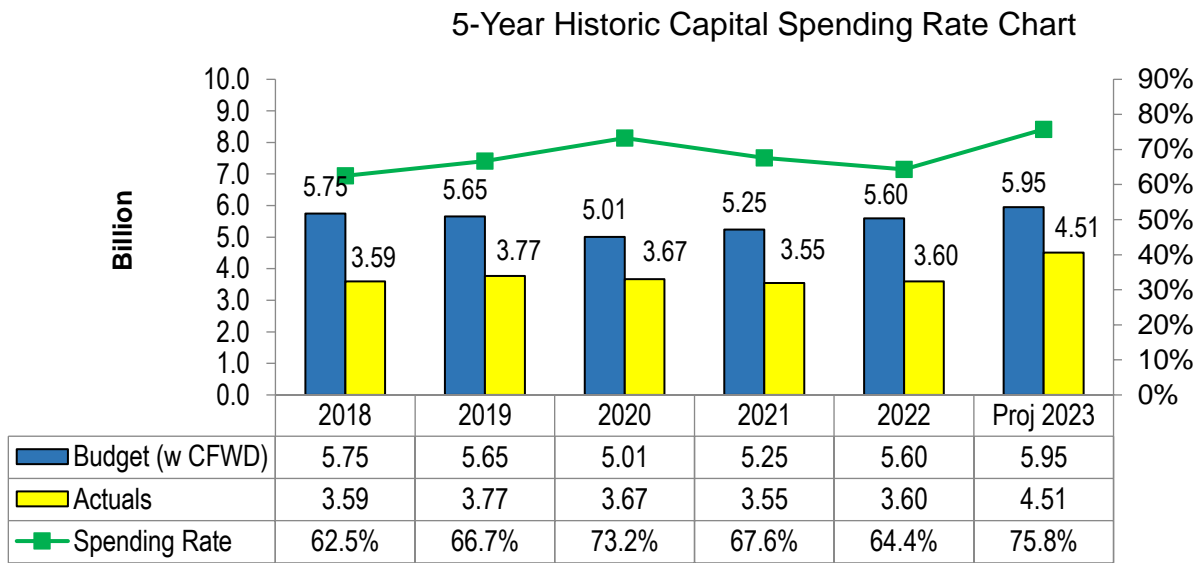
- Legislated projects were \$124.0 million, and the largest legislated project being *Easier Access-Phase III (\$103.9 million)*.
  - Service Improvement were \$93.8 million, and the largest growth project being *Line 1 Capacity Enhancement (\$23.4 million)*.
- Toronto Water is projecting to spend \$1.172 billion or 84.3% of its 2023 Approved Capital Budget. The largest areas of expenditure are expected to be as follows:
    - State of Good Repair projects were \$509.8 million, and the largest contributing project being *Watermain Replacement (\$78.6 million)*.
    - Service Improvement projects were \$417.1 million, and the largest service improvement project being *Basement Flooding Relief (\$70.9 million)*.
    - Growth projects were \$128.9 million, and the largest growth project being *Downsview Main Keel PS - Downsview Constr (\$37.1 million)*.
  - Transportation Services is projecting to spend \$380.9 million or 83.1% of its 2023 Approve 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 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 \$328.5 million and \$232.2 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.

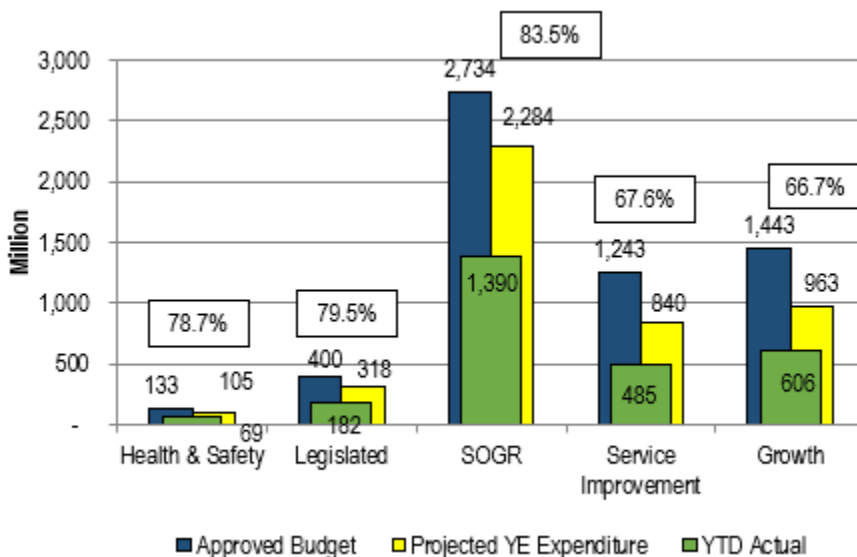
As indicated in the annual chart, the City's annual spending rate was trending up from the year 2018 with 62.5% to the 2020 spend rate of 73.2%. A dip in capital spending was experienced in 2021-2022 largely due to challenges in labour, materials and resources. As of the nine months ended September 30, 2023, the City has spent \$2.731 billion, which is higher than the 5 year average for the same nine-month period of \$2.103 billion. Capital spending will continue to be reviewed over the course of the year, with a final update provided in the year end report.

**Figure 1: 2018 - 2022 Spending and 2023 Projected Capital Spending Rate (\$ Billions)**



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 Approved Budget and Spending by Project Category (\$Millions)**



State of Good Repair (SOGR) and Legislated projects have the two highest projected spending rates of 83.5% and 79.5% respectively. SOGR projects also account for the highest projected year-end spending at \$2.284 billion which is in line with the City's continued emphasis on SOGR investments. It is also anticipated that about 78.7% of the Health and Safety capital projects, 67.6% of Service Improvement, and 66.7% of

Growth related projects will be spent by year-end. Table 3 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) - Q3 2023	Approved Budget	YTD Actual	Projected YE Expenditure	Spending Rate
Health & Safety	133	69	105	78.7%
Legislated	400	182	318	79.5%
SOGR	2,734	1,390	2,284	83.5%
Service Improvement	1,243	485	840	67.6%
Growth	1,443	606	963	66.7%
<b>Total</b>	<b>5,954</b>	<b>2,731</b>	<b>4,510</b>	<b>75.8%</b>

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 third quarter 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 2A details 6 capital projects from the Tax Supported Programs that have been completed in the third quarter of 2023 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$32.4 million and actual expenditures of \$31.4 million, with a permanent underspend of \$1.022 million.

On the other hand, Appendix 2B presents 45 capital subprojects from the Tax Supported Programs ready to be closed.

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:

### **Children's Services**

The Division is accelerating funding of \$5.2 million into 2023 from the 2024-2032 Plan years for five projects due to the projects progressing in alignment or faster than their original/anticipated schedules, and deferring funding of \$1.8 million from 2023 into the 2024-2032 Plan years for ten projects due to delays at the project site, delay in receipt of final invoices, and scheduling issues.

The total impact of these adjustments is an increase of \$3.4 million to 2023 cash flows, funded through a combination of Reserves (XR1103 - Childcare Capital Reserve Fund) (\$3.5 million), and Other Operating contributions (\$0.6 million), and offset by a reduction to Development Charges (XR2122 - Development Charges Reserve Fund - Child Care) (\$0.642 million).

### **Parks, Forestry & Recreation**

As detailed in Appendix 4, City Council's authority is required to amend the 2023 Council Approved Capital Budget and 2024-2032 Capital Plan for Parks, Forestry and Recreation (PF&R) by adjusting project cash flows to reflect program requirements and increased costs experienced with the implementation of project scope. These adjustments have no impact to the timing of debt requirements.

Requested adjustments include the acceleration and deferral of \$3.700 million in cash flow between the Registration, Permitting and Licensing and Capital Asset Management Program (CAMP) for Arenas projects to align with the timing of planned work. The \$3.700 million accelerated to 2023 for the Capital Asset Management Program (CAMP) for Arenas project will be reallocated to the CAMP Waterfront, Marine, Fountain & Seawalls project for emergency dry docking work of the Ongiara ferry vessel that has to proceed in 2023.

Reallocation of funding sources is required for seven (7) projects from non-debt funding sources (Development Charges, Donation, Section 37, Section 45 and Section 42 First 5% Cash-in-lieu):

- \$0.055 million in Development Charges replaced with a Donation received for the June Callwood Park project through the Gore Park and Area Park Development project (Ward 10);
- \$0.582 million in Section 37 community benefits in 2023 reallocated between the Clydesdale Tennis Clubhouse Improvements and Former Ward 33 Park Improvements projects (Ward 17);
- \$6.072 million in Section 37 community benefits in 2023 not received for the Ethennonnhawahstihnen CC project to be updated with funding sources received from Development Charges, Section 37, Section 45, and Section 42 Above 5% Cash-in-lieu (Ward 17);

- \$0.670 million in Development Charges and Section 42 First 5% West District Parkland Development Cash-in-lieu (CIL) Reserve Fund updated to Section 42 Above 5% CIL for the Maple Leaf Park Splash Pad project (Ward 5);
- \$0.170 million in Development Charges updated to Section 42 Above 5% CIL for the Pelmo Park Splash Pad project (Ward 5); and
- \$9.899 million in Section 42 Above 5% CIL corrected to Development Charges for the North East Scarborough Community Recreation Centre Construction project (Ward 25).

In addition, cost escalation has resulted in a total increase in project costs of \$1.999 million and associated cash flow funding of \$0.024 million in 2023 and \$1.975 million in 2024 fully funded from non-debt funding sources (Donation and Section 42 First 5% Cash-in-lieu) for the following projects:

- \$0.024 million cash flow added to 2023 for the Fred Hamilton Playground Wading Pool Conversion (Ward 11);
- \$1.000 million cash flow added to 2024 for the North Park Improvement (Ward 5);
- \$0.275 million cash flow added to 2024 for Stan Wadlow Park under the Playground Enhancement Program (Ward 19); and
- \$0.700 million cash flow added to 2024 for the Parkway Forest Off Leash Area (Ward 17)

## **Housing Secretariat**

This adjustment is to recognize Ontario Priorities Housing Initiative (OPHI) year 3 funding, totalling \$5.1 million, which has not yet been included in the capital budget for the Emergency Housing Initiative (EHI) project. This request has a net zero impact on the capital budget as it is fully funded through OPHI. This includes \$3.3 million in additional funding, as well as \$1.5 million in funding that can be swapped with DC funding that was utilized prior to OPHI funding confirmation.

In October 2021, Council directed the proceeds from the sale of 249 Queen's Quay be allocated to the Multi-Unit Residential Acquisitions (MURA) Program (2021.EX27.5). The proceeds, which were placed in the Land Acquisition Reserve Fund (XR1012), were budgeted in the 2023 Capital Plan under the Strategic City Acquisitions project. The funds were budgeted in capital since MURA was established to allow for both non-profit and City acquisitions, and it was anticipated that these funds would be allocated towards a City acquisition. The funds are now planned for non-profit acquisitions and need to be transferred to the 2024 Operating Budget so that funds can be distributed to non-profit proponents.

This in-year adjustment will move the funding out of the capital, a \$12.5 million reduction to the 2023 Council Approved Capital Budget for Housing Secretariat, so that it can be moved into operating. There is no impact on outcome/delivery as the funding will still be used towards MURA as directed by Council.



## **Toronto Paramedic Services**

The in-year adjustment is to amend the 2023 Capital Budget for Toronto Paramedic Services (PS) by adjusting project cash flows to reflect the project delivery schedules and program requirements. Overall, this Q3 adjustment reflects a total net cash flow additional funding of \$0.7 million to the 2023 Capital Budget from PS Equipment Reserve XQ1019.

The addition of funding requested for Medical Equipment Replacement in 2023 in the amount of \$0.7 million is for the purchase of Pacific R6V Dominator Helmets and Doty Belts with delivery in 2023. Funding source is PS Equipment Reserve Fund (XQ1019).

## **Transportation Services**

Adjustments to Transportation Services' 2023 Capital Budget are requested primarily for a reallocation of \$16.398 million and acceleration of \$9.863 million between projects that are delayed due to a variety of reasons including site conditions and additional detail design requirements; and projects that are proceeding ahead of schedule for a variety of reasons including earlier than anticipated land settlements, and funding requirements from third party delivery agents such as Metrolinx and TCHC.

## **Corporate Real Estate Management**

The in-year adjustments are related to the accelerations of \$12.6 million in debt funding from 2024 (\$11.7 million) and 2025 (\$0.3 million) to 2023, which this amount is offset by the deferrals of projects from 2023 to 2024 in reflecting the delays due to procurement, resources constraints, and sequencing of work. This results in net zero impact to overall project cost and debt funding.

## **Fleet Services**

The in-year adjustment is to reallocate \$0.7 million of cashflows to projects expected to overspend from underspent projects. All projects are funded from fleet replacement reserves and the reallocation will have no incremental impact on Council approved cashflows or budget.

As well, an acceleration from 2024 to 2023 of \$0.3 million of Council approved cashflows for ECS, CREM, and TCHC for the earlier availability of replacements from OEMs than expected. Fleet Services is experiencing general delays in chassis and body work manufacturing mainly due to a global supply chain delay in raw materials but OEMs have some stock available earlier than originally planned.

Additional acceleration of \$0.7 million from 2024 to 2023 of Council approved cashflows for Fire Services to make a partial payment on the procurement of a metal marine craft and the upfitting of 16 pick-ups.

## Technology Services Division

The in-year budget adjustments is to re-align cashflows between projects with accelerated spending and those experiencing delays impacting their capacity to spend. Overall, the recommended adjustments will have no impact to the 2023 Council Approved Capital Budget for TSD.

- Supply chain issues have now resolved post-pandemic and the Lifecycle Management projects require \$4.2 million to tackle the growing backlog of sustainment of hardware, critical servers, and network assets to ensure operations continue without risk or failure.
- ServiceNow project require \$1.8 million due to re-scoped vendor deliverables to better align with the City's requirements and reset timelines.
- The above-noted advances in spending are being offset by deferral of cash flow in various projects due to severe resource constraints, co-ordination with other projects, and procurement delays, which are impacting project delivery.

## Toronto Public Library

The in-year reallocation adjustment of 2023 cash flow funding of \$2.0 million from the *Toronto Reference Library Renovation* project (\$0.9 million), the *Maryvale Relocation* project (\$0.3 million) and the *Multi-Branch Minor Renovation Accessibility* project (\$0.8 million) to the *Albert Campbell Renovation* project (\$0.5 million), the North York Central Library Phase 2 project (\$0.3 million) and the York Woods Renovation project (\$1.1 million).

The *Albert Campbell*, *North York Central* and the *York Woods Renovation* projects have no cash flow funding in 2023 but incurred spending due to expenses related to deficiencies and additional renovation work and therefore requiring cash flow funding. The scope of the Toronto Reference Library has been revisited and will be done in multiple years in the future. The Maryvale relocation project was completed in 2022 with deficiencies fully addressed in 2023. The updated property condition reports will inform future AODA spending in the Multi-branch accessibility project.

These in-year budget adjustments result in zero debt and cash flow impact to the 2023 Council Approved Capital Budget for Toronto Public Library.

## Solid Waste Management Services

The in-year adjustment is to amend the 2023 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 \$0.8 million to the 2023 Capital Budget funded by the Perpetual Care Reserve Fund between *Perpetual Care of Closed Landfills* projects. Funds have been reallocated in 2023 to cover anticipated budget shortfalls.

## Toronto Transit Commission (TTC)

TTC's in year budget adjustments consist of \$105.9 million in reallocation of funding between projects and \$0.257 million to accelerate work and/or transfer scope to reflect timing and scheduling of projects and align with year-end projections.

## Toronto Parking Authority

Toronto Parking Authority's in year adjustments consisted of:

- \$5.768 million deferral in *St. Patrick Garage*, which is fully offset by accelerations of various projects.
- \$6.245 million in reallocation of projects in realigning the cash flow

The adjustments will have no impact to the overall approved cash flow.

## CONTACT

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## SIGNATURE

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Stephen Conforti  
Chief Financial Officer and Treasurer

## ATTACHMENTS

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Appendix 1 2023 Capital Variance Summary for the Nine months Ended September 30, 2023  
Appendix 2A 2023 Q3 Capital Projects Recommended for Full Closure  
Appendix 2B 2023 Q3 Capital Projects Recommended for Partial Closure  
Appendix 3 2023 Q3 Major Capital Projects  
Appendix 4 In-Year Adjustments for the Nine-months Ended September 30, 2023  
Appendix 5 2023 Q3 Capital Variance Dashboard by Program and Agency