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2024 CAPITAL BUDGET BRIEFING NOTE
State of Good Repair (SOGR) Backlog

Issue/Background:

This briefing note presents the State of Good Repair (SOGR) Backlog for Tax and Rate Supported City Programs and Agencies, and the impact investments in the 2024–2033 Capital Budget and Plan will have on the City's SOGR Backlog.

The SOGR numbers disclosed in this briefing note reflect the current 10-year capital plan before the Provincial new deal agreement. Upon completion of the Province's due diligence process, Gardiner and Don Valley Parkway funding will be reallocated to infrastructure and infrastructure renewal and SOGR investments and the accumulated backlog will be updated accordingly.

The City has an expansive asset inventory and its infrastructure is aging. The City's capital program is driven largely by the cost of maintaining these physical assets in a state of good repair. Managing the accumulated SOGR backlog is a key capital strategic objective and priority for the City in order to ensure that current assets are able to support the delivery of City services and meet service outcomes.

When capital funding for planned SOGR capital works is less than the annual SOGR need, the unfunded balance is added to the accumulated SOGR backlog. Conversely, should the capital funding in SOGR exceed the planned SOGR need, the excess is applied against the accumulated SOGR backlog, effectively reducing the balance.

In the absence of comparable benchmarks, the City has established its own state of good repair performance measure; *"backlog as a percentage of total asset value (replacement value)"* that is applied across its portfolio of assets. The benefits of gathering accurate asset data are that it:

- provides a true picture of what the accumulated SOGR backlog is;

- identifies areas of growing need and highlights the City's asset condition; and

- shows the impact of City SOGR planned funding on the City's accumulated SOGR backlog for the capital planning period.

This metric provides the City with year over year comparisons and trends that assist City Council in determining how best to apply scarce resources in making strategic investments to reduce the City's SOGR Backlog by Program/Agency and/or by asset type. By employing this practice, the City can measure its progress in achieving SOGR

objectives and conversely, can determine where additional investments are required. Details of the SOGR Backlog trend and percentage of total asset value for each Program and Agency can be found in their respective 2024 Budget Notes.

In addition to the SOGR backlog metric, the City employs practices that require comprehensive asset value condition assessments by asset type; the use of decision support tools to rank and prioritize reinvestment needs and debt funding scenario analysis, all of which form part of the City's regular capital planning process. These actions taken together improve asset lifecycle management, more accurately identify the SOGR needs in the City's portfolio, and reflect the City's strategic commitment to address the infrastructure deficit in a holistic fashion.

The City currently owns an inventory of physical assets valued at $181.0 billion as shown in Table 1 below:

Table 1: City's Physical Infrastructure

Tax & Rate Supported Programs		Estimated Asset Value ($ billion)
Water & Wastewater Infrastructure	• 4 water filtration & 4 wastewater treatment plants • 11 reservoirs, 4 elevated water storage tanks • 7 storm storage and detention tanks • 110 pumping stations • 10,500+ km for sanitary, combined storm sewers and trunks • 6,100+ km of distribution and transmission watermains	$90.6
Transportation Infrastructure	• 5,600 km of roads • 900 bridges/culverts and 7,400 km of sidewalks • 2,504 traffic control signals and 489 pedestrian crossovers • 792 centreline km of bikeway network	$30.0
Public Transit System	• More than 150 bus routes, 11 streetcar routes and 3 subway lines • Fleet of over 2,000 buses, 204 streetcars, 143 trains and 250 Wheel-Trans buses	$26.4
Buildings, Facilities & Fleet	• 474 City-owned facilities covering 12.5 million sq. ft. • 8,000 fleet assets and a network of fuel sites and electric vehicle charging points • Library branches, long term homes and solid waste management equipment and other assets	$13.7
TCHC	• 58,500 public housing units (full responsibility)	$14.2
Parkland & Other Land	• 8,110 hectares of parkland	$6.1
Estimated Asset Value		$181.0

Previously, the total value of physical assets owned by the City was estimated at $168.4 billion during the 2023 Budget process. The increase represents additional assets

acquired through completed capital projects, developments, updated condition assessments, as well as lifecycle planning.

As City Programs and Agencies continue to mature its asset management best practices, SOGR backlog funding information is updated based on the information received about the condition of City infrastructure.

In addition, the Core Infrastructure Asset Management Plan was introduced and approved by Council in 2021 to integrate planning, finance, engineering and operations to realize value from assets, reduce risks and provide expected levels of service to the community in a socially, environmentally and economically sustainable manner.

Furthermore, the next phase of asset management planning is well underway and the Integrated Asset Management Plan (IAMP) for all infrastructure assets, in addition to core infrastructure, will be completed for Council's consideration prior to the provincial timeline of July 1, 2024.

Key Points:

The City's Investments in SOGR

- The 2024–2033 Tax and Rate Supported Capital Budget and Plan excluding carry forward funding will invest $26.0 billion or 52.2% of the total $49.8 billion planned capital investments in SOGR projects to maintain assets in a state of good repair for the next ten years; specifically;

  - An increase investment in SOGR of $1.8 billion or 7.3% compared to last year's 10-Year Capital Plan of $24.2 billion.

  - This is consistent with a demonstrated increase in SOGR funding over the last ten years, with an increased investment in SOGR of $8.0 billion or 45.0% compared to the 10-Year Capital Plan from 2015 – 2024 of $18.0 billion. This increase has resulted in added investments in:

    - ✓ Transit – nearly doubling the overall investment in the TTC Base Capital Plan supported through the introduction of the City Building Fund;

    - ✓ TCHC Building repairs – An additional $1.6 billion in City funding over the next ten years to continue to bring the TCHC building portfolio into a state of good repair by 2027;

    - ✓ Parks, Forestry and Recreation – Added investment of $158.0 million to address critical SOGR requiring immediate repair/replacement to mitigate service disruptions;

    - ✓ Continued growth in our SOGR investments in Water and Wastewater infrastructure; and

    - ✓ More than doubling investments in City Fleet renewal.

- Despite the above noted increases in SOGR funding, the total accumulated SOGR backlog estimate is expected to increase from $10.6 billion at the end of 2023 to

$22.7 billion by the end of 2033 and the backlog as a percentage of asset value will increase from 6.1% to 10.2% respectively, based on the current funding levels, as illustrated in Chart 1 below.

- The estimated SOGR backlog by the tenth year of the Capital Plan, that had already been expected to grow due to aging infrastructure and assets, has seen an increase of $4.0 billion compared to last year's projected growth due in large part to:

  - The City of Toronto, along with other cities globally, experiencing a high inflationary environment. The inflationary pressure is causing a series of cost escalations across the City's projects, such as the increasing cost of labour and materials. As a result, the City is undertaking tremendous effort to suppress the growing SOGR backlog by increasing its SOGR investment, and working closely with other levels of government to address the budget shortfall.

  - An increase in contract prices leading to a decrease in SOGR that can be addressed in any given year.

  - Deferral of SOGR investment to align with capacity to spend, factoring in recent spend rates and capital delivery challenges experienced.

  - Staffing and specialized labour shortages.

  - Reductions to SOGR funding in prior years needed to address the COVID-19 support funding shortfall from the federal and provincial governments.

  - The City continuing to receive updated asset values and condition assessments from asset inspections that more precisely account for SOGR needs. Also, as the City continues to mature its asset management best practices, and as better information is received about the condition of the infrastructure, SOGR needs are expected to continue to rise.

  - Affordability due to increased cost of borrowing as interest rate increasing during 2023, challenging the affordability of the City's current 10-Year Capital Plan within the context of 15% debt service ratio threshold.

Chart 1: 10 Year Capital SOGR Backlog – Tax and Rate Supported Programs ($M)
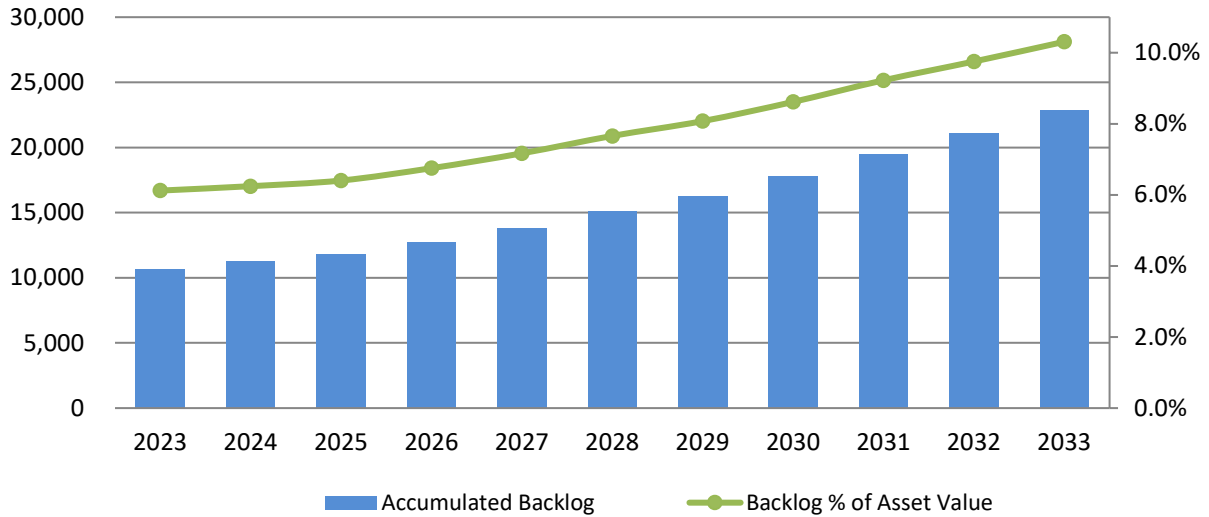
Tax & Rate Supported ($M)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Total Asset Value	174,241	181,020	184,872	188,981	193,339	198,156	202,844	207,647	212,600	217,638	223,370
Accumulated Backlog	10,582	11,052	11,573	12,421	13,296	14,595	15,992	17,692	19,401	21,007	22,744
Backlog % of Asset Value	6.1%	6.1%	6.3%	6.6%	6.9%	7.4%	7.9%	8.5%	9.1%	9.7%	10.2%

- Table 2 provides a consolidated view of SOGR backlog between Tax and Rate-Supported Programs whereas Table 3 illustrate the accumulated SOGR backlog estimates for key program areas:

Table 2: SOGR Backlog – Summary

SOGR Backlog ($M)	2024 (beg. bal.)	2024 (1 Year)	2028 (5 Year)	2033 (10 Year)	2023-2033 Change	
Tax Supported Programs	8,328	8,890	13,500	22,137	13,809	▲
Rate Supported Programs	2,254	2,163	1,095	606	(1,648)	▼
Total SOGR Backlog (Tax & Rate)	**10,582**	**11,052**	**14,595**	**22,744**	**12,161**	▲
Total Asset Value	174,241	181,020	198,158	223,370	49,129	
SOGR as % Asset Value	6.1%	6.1%	7.4%	10.2%		

Table 3: SOGR Backlog by Key Program – Summary

SOGR Backlog ($M)	2024 (beg. bal.)	2024 (1 Year)	2028 (5 Year)	2033 (10 Year)	2023-2033 Change	
Toronto Transit Commission	17	149	3,493	8,243	8,227	▲
Transportation Services	2,106	2,317	4,308	7,751	5,645	▲
Toronto Community Housing Corporation	1,834	1,929	1,926	2,583	749	▲
Corporate Real Estate Management	927	1,080	1,329	1,469	542	▲
Parks, Forestry & Recreation	805	986	1,262	1,099	294	▲
Other	1,055	1,017	951	992	(64)	▼
Total City Backlog (excl. Gardiner and TW)	6,745	7,477	13,269	22,138	15,393	▲
F.G. Gardiner Expressway Rehabilitation*	1,840	1,653	400	123	(1,717)	▼
Toronto Water	1,997	1,923	926	482	(1,515)	▼
Total SOGR Backlog (Tax & Rate)	**10,582**	**11,052**	**14,595**	**22,744**	**12,161**	▲
Total Asset Value	174,241	181,020	198,158	223,370	49,129	
SOGR as % Asset Value	6.1%	6.1%	7.4%	10.2%		

*To be adjusted and funds reallocated following province's due diligence process

- Table 3 details the main contributors to the City's accumulated SOGR backlog, noting five key program areas contributing to the expected SOGR backlog increase:

  - Toronto Transit Commission (TTC), Transportation Services, Toronto Community Housing Corporation (TCHC), Corporate Real Estate Management (CREM), as well as Parks, Forestry and Recreation (PFR) collectively represent $5.689 billion or 54% of the $10.582 billion accumulated SOGR backlog balance at the end of 2023 and $21.146 billion or 93% of the $22.744 billion backlog expected by 2033.

  - Of these five programs, TTC will be the largest contributor to the City's SOGR Backlog increase, projected to rise by $8.227 billion in the 10-year planning period.

    o The increase is due to a recast of the backlog to assume a more realistic capacity to spend given recent trends and historical investments on SOGR.

    o When excluding the backlog associated with unfunded fleet procurement and overhaul investments, the SOGR Backlog would be significantly reduced to $3.397 billion or 8.5% of asset value by the end of 2033, noting that unfunded vehicle needs make up 59% of this backlog.

- The SOGR backlog associated with TTC fleet will be further reduced by $1.265 billion over 10 years (2024-2033) with the confirmation of federal funding towards the purchase of 55 subway trains for Line 2 replace, matching City and provincial funding towards this requirement.

- As for Transportation Services, given the cost escalation experienced with SOGR related works in the past year, the road asset value and rehabilitation need within the next ten years has been updated. The SOGR backlog of physical infrastructure needs for major road and local road rehabilitation programs are expected to increase over the next 10 years.

- Despite the City's funding commitment of $1.6 billion included in the 10-Year Capital Plan to aid TCHC in reaching building repair industry standard, the SOGR backlog continues to grow and is anticipated to reach $2.7 billion by 2033. The SOGR backlog trend is reflective of price escalations from market conditions and the significant increase in tenant on demand capital repairs resulting from prior years' lower volume due to impacts of the pandemic and reluctance of tenants to allow entry into units. The minor in-suite demand repairs do not decrease the backlog and are increasing as a percentage of total spend, resulting in an increasing percentage of funding being allocated to minor repairs instead of major repairs. Additionally, the CMHC National Housing Co-Investment Fund Repair and Renewal Stream funding will end 2027, resulting in a significant funding gap for major repair capital starting in 2028 and beyond. The SOGR backlog for CREM will increase from $0.927 billion or 15.8% of replacement asset value in 2023 to $1.469 billion or 23.4% by 2033 primarily due to the vast portfolio of aging City facilities and infrastructure that continues to service a growing city.

- For PFR, despite added investments of $158.0 million over the ten-year plan to address critical SOGR works to maintain service and prevent unplanned closures, the accumulated SOGR backlog continues to grow and is predicted to exceed $1.1 billion, roughly split between parkland and community recreation facilities. This is compounded by additional assets acquired through completed capital projects or new parks secured through development.

- While SOGR backlog is expected to increase for TTC and the other four Programs noted above, dedicated SOGR investments are expected to reduce the accumulated SOGR backlog balance for the following Programs;

  o Transportation Services as it relates to investments in the F.G. Gardiner Expressway Rehabilitation (FGG) project, which upon completion of the province's due diligence process will be reallocated to other infrastructure and infrastructure renewal requirements;

- o Significant reductions are expected for Programs/Agencies such as; Toronto Water, Toronto Parking Authority (TPA), Economic, Development and Culture, TO Live and Toronto Region Conservation Authority (TRCA) based on the current level of capital investments.

New Deal with Province

On November 26, 2023, the City and the Province entered into an agreement to improve the long-term stability and sustainability of the City's finances.

As part of the New Deal agreement, the City will be uploading the responsibility of the Gardiner and the Don Valley Parkway to the Province and the Province is committed to providing the City stated 2024 operating and capital budgets in advance while the due diligence assessment is underway. The Province will provide additional funding in 2025 if the due diligence is not completed.

Upon upload of the Gardiner and DVP, both the associated SOGR investments and accumulated backlogs will be removed from the City's SOGR reporting, with existing funding to be redirected to other infrastructure and infrastructure renewal requirements.

Issues and Strategies

The City has implemented a series of capital investment strategies to help address the continued pressure from its accumulated SOGR backlog. This is evidenced by the near elimination of SOGR backlog in Toronto Water, and other key areas such as TPA, TRCA and the considerable increase in SOGR funding for Transit made possible by the City Building Fund. However, the backlog in other key Program areas continues to grow.

The City will continue to advance capital infrastructure investments and explore sustainable long term financing strategies to address on-going SOGR needs and establish a balance between SOGR and growth/service improvement capital funding priorities, to maintain the City's current $181.0 billion of assets in a state of good repair as well as improve and add assets to meet service demand and growth of the City. As previously noted, these strategies will include:

- Leveraging the City Building Fund extension to mitigate growing pressure in Transit and Housing capital projects equal to 1.5% of residential property tax increases, consistent with the City's approved capital funding strategy;

- Continued enhancement of asset management planning for all City infrastructure; and

- Complete the capital prioritization framework noted in the updated Long Term Financial Plan to better support capital prioritization and allocation of finite capital funds towards critical investments.

Attachment:

Appendix 1: Change in Accumulated SOGR Backlog 2024 to 2033 by Program

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Appendix 1: **Change in Accumulated SOGR Backlog 2024 to 2033 by Program**

Program Description ($Millions)	2024					2024 - 2033				
	Accum. Backlog Beginning Balance	SOGR Needs Added	SOGR Backlog Addressed	Backlog Incr./ (Decr.)	Accum. Backlog Ending Balance	SOGR Needs Added	SOGR Backlog Addressed	Backlog Incr./ (Decr.)	Accum. Backlog 2033 Balance	
Community and Social Services										
Children's Services	2.5	7.5	4.2	3.3	5.8	24.2	24.1	0.1	2.6	▲
Economic Development and Culture	46.4	6.2	7.9	(1.7)	44.7	56.6	71.2	(14.6)	31.8	▼
Parks, Forestry & Recreation	805.3	285.3	104.7	180.7	986.0	1,274.0	979.9	294.2	1,099.5	▲
Seniors Services and Long-Term Care	6.2	11.7	8.7	3.0	9.2	108.6	77.0	31.6	37.8	▲
Toronto Shelter and Support Services	13.7	23.6	22.2	1.4	15.0	82.8	72.2	10.6	24.3	▲
Sub-Total Community and Social Services	**874.1**	**334.2**	**147.6**	**186.6**	**1,060.6**	**1,546.2**	**1,224.4**	**321.8**	**1,195.9**	▲
Infrastructure Services										
Transportation Services	3,946.4	469.9	446.8	23.1	3,969.5	7,599.3	3,671.4	3,928.0	7,874.4	▲
Sub-Total Infrastructure Services	**3,946.4**	**469.9**	**446.8**	**23.1**	**3,969.5**	**7,599.3**	**3,671.4**	**3,928.0**	**7,874.4**	▲
Development & Growth Services										
Toronto Community Housing Corporation	1,834.2	294.2	199.7	94.5	1,928.7	2,411.5	1,662.9	748.6	2,582.7	▲
Sub-Total Development & Growth Services	**1,834.2**	**294.2**	**199.7**	**94.5**	**1,928.7**	**2,411.5**	**1,662.9**	**748.6**	**2,582.7**	▲
Corporate Services										
Corporate Real Estate Management	926.8	252.5	99.6	152.9	1,079.7	1,118.7	576.3	542.5	1,469.2	▲
Fleet Services	55.7	46.7	51.4	(4.7)	51.0	868.2	856.5	11.7	67.4	▲
Technology Services	0.0	21.3	21.3	0.0	0.0	240.8	213.0	27.8	27.8	▲
Sub-Total Corporate Services	**982.5**	**320.5**	**172.3**	**148.2**	**1,130.6**	**2,227.7**	**1,645.7**	**582.0**	**1,564.5**	▲
Total City Operations	**7,637.1**	**1,418.7**	**966.4**	**452.3**	**8,089.4**	**13,784.8**	**8,204.4**	**5,580.4**	**13,217.4**	▲
Agencies										
Exhibition Place	65.2	24.0	18.7	5.3	70.6	189.7	164.2	25.5	90.7	▲
TO Live	205.1	0.0	3.0	(3.0)	202.1	0.0	41.6	(41.6)	163.5	▼
Toronto & Region Conservation Authority	156.2	10.8	19.2	(8.4)	147.7	140.0	196.8	(56.8)	99.4	▼
Toronto Public Library	177.2	9.6	13.5	(3.9)	173.3	214.5	177.3	37.2	214.4	▲
Toronto Zoo	70.5	21.8	34.5	(12.8)	57.7	217.6	179.8	37.8	108.2	▲
Sub-Total Other City Programs	**674.1**	**66.1**	**88.9**	**(22.7)**	**651.4**	**761.8**	**759.8**	**2.0**	**676.2**	▲
Toronto Transit Commission										
Toronto Transit Commission	16.8	958.6	826.2	132.4	149.2	15,428.4	7,201.8	8,226.7	8,243.5	▲
Sub-Total Toronto Transit Commission	**16.8**	**958.6**	**826.2**	**132.4**	**149.2**	**15,428.4**	**7,201.8**	**8,226.7**	**8,243.5**	▲
Total - Tax Supported Programs	**8,328.0**	**2,443.4**	**1,881.5**	**561.9**	**8,890.0**	**29,975.0**	**16,165.9**	**13,809.1**	**22,137.1**	▲
Rate Supported Programs										
Toronto Parking Authority	256.9	0.0	17.0	(17.0)	239.8	0.0	132.9	(132.9)	124.0	▼
Toronto Water	1,997.4	604.1	678.7	(74.6)	1,922.7	6,631.9	8,146.8	(1,514.9)	482.5	▼
Sub-Total Rate Supported Programs	**2,254.2**	**604.1**	**695.8**	**(91.7)**	**2,162.5**	**6,631.9**	**8,279.7**	**(1,647.7)**	**606.5**	▼
Total - Rate and Tax Supported Programs	**10,582.2**	**3,047.5**	**2,577.2**	**470.3**	**11,052.5**	**36,606.9**	**24,445.6**	**12,161.3**	**22,743.6**	▲

Note:
- Funding to address the state of good repair backlog for City-owned facilities for Paramedic Services, Toronto Fire and Toronto Public Health is included in CREM's 10-Year Capital Plan as asset management capital funding was transferred to CREM in 2010.