

Status Update: Capital Prioritization Framework

Date: April 3, 2024

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

At its meeting on September 6, 2023, City Council considered the Updated Long-Term Financial Plan (LTFP), which identified immediate and long-term opportunities to address the City's fiscal challenges. As part of the report, staff committed to developing a capital prioritization framework for the 2025 budget planning process. This report provides a status update on that work.

Following completion of the 2024 budget process, staff began developing a comprehensive framework for capital prioritization, which is intended to provide the City with an objective tool and approach for prioritizing capital projects within the City's financial and project delivery capacity, based on a set of weighted criteria. Consideration is being given to a variety of criteria, including capital project categories, state of good repair requirements, spend rates, availability and eligibility of funding, risk assessment, environmental, social and governance contributions, and strategic alignment with the City's priorities. The framework is intended to ultimately enhance the City's existing prioritization process.

As a next step, staff will continue to consult with similar government entities and City Division and Agency stakeholders to develop final prioritization criteria and applicable weighting. In addition, staff will develop a tool to facilitate the prioritization process across a multi-billion dollar capital program. During the 2025 budget process, the framework will be applied to capital project data collected, starting with new capital projects, before expanding to the full 10-Year Capital Budget and Plan and unfunded priorities. Further updates on the capital prioritization framework will be provided during the 2025 budget process.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Executive Committee receive this report for information.

FINANCIAL IMPACT

A formalized City-wide prioritization framework can enhance existing prioritization processes and be used to make strategic decisions regarding the 10-Year Capital Plan, including both the funded and unfunded portions, during the annual budget process. A new framework will allow Council to set strategic direction in the allocation of available capital funds using a consistent set of guiding principles, while considering overall affordability and capacity to deliver capital investments.

As was noted in the [2023 Financial Update and Outlook](#) presented to City Council in March 2023, the City faces material fiscal risks over the next 10 years, including a combination of increasing annual operating pressures, additional debt servicing costs, and a growing list of capital needs, with the majority of the City's projected financial challenges related to the 10-Year Capital Plan.

The City's 2024-2033 Capital Budget and Plan is a total of \$49.8 billion in expenditures, with \$14.1 billion funded by debt-related sources (including conventional debt, debt enabled by the City Building Fund, and recoverable debt). In addition to the funded portion of the Capital Plan, the LTFP identified \$29.5 billion in known unfunded capital pressures. Further to this, the City faces additional demands to deliver key priorities including affordable housing goals, climate action, and advancements of critical state of good repair work.

Overall, development of a capital prioritization framework is expected to positively contribute to the City's long-term financial sustainability and to advance the strategic directions and goals of City Council, by effectively allocating and prioritizing available funding.

DECISION HISTORY

At its meeting on September 6, 2023, City Council considered the Updated Long-Term Financial Plan. As part of the report, staff committed to developing a prioritization framework for the 2025 budget planning process. It was noted that the framework would consider prioritization according to capital project categories, spend rates, availability and eligibility of funding, risk assessment, environmental, social and governance contributions, and strategic alignment with the City's priorities.

Item EX7.1: <https://secure.toronto.ca/council/agenda-item.do?item=2023.EX7.1>

COMMENTS

The City currently prioritizes capital investments within each Division and Agency with a focus on advancing legislated and health and safety related projects, and then prioritizing state of good repair (SOGR) investments. Collectively, these project categories account for an average of 61% of total approved capital projects over the last six years, with SOGR initiatives alone reflecting an average of 51% of total capital

spending. Remaining capital projects are split between service improvement and growth related initiatives to primarily address infrastructure requirements for demands of City services.

With growing capital demands, unfunded pressures, and emergent Council priorities it is imperative that an enhanced capital prioritization framework be developed to set strategic direction in the allocation of available capital funds using a consistent set of guiding principles, while considering overall affordability and capacity to deliver capital investments.

Preliminary key considerations have been established in support of the development of a capital prioritization framework as summarized below. Upon finalization of all considerations weighting will be assigned to support project considerations.

Key Considerations:

<p>Project Status & Delivery</p>	<ul style="list-style-type: none"> • In-flight project status (progressing or delayed and sunk costs) • Existing contractual commitments • Project readiness to proceed • City capacity to deliver • External market capacity (i.e. vendor availability, specialized labour or global supply chain) • Stage Gate status • Partnerships, co-locations, and/or coordination with related projects • Opportunity lost
<p>Project Category</p>	<ul style="list-style-type: none"> • Legislative • Health and Safety • State of Good Repair <ul style="list-style-type: none"> ▪ Status of backlog ▪ Asset management ▪ Associated service / service level risk • Service Improvement • Growth-Related <ul style="list-style-type: none"> ▪ Geographical demands
<p>Alignment with Council Priorities</p>	<ul style="list-style-type: none"> • Identified Council Priorities • Housing / Housing Infrastructure • Transit • Climate / Carbon Budget • Social / Equity considerations • Specific Council Direction / Council-Approved Policies and Plans • City’s Strategic Corporate Plan <ul style="list-style-type: none"> ▪ Financial sustainability ▪ Well-run City ▪ Maintain and create affordable housing

	<ul style="list-style-type: none"> ▪ Keep Toronto moving ▪ Invest in people and neighbourhoods ▪ Tackle climate change and build resilience
Funding Opportunities	<ul style="list-style-type: none"> • Available intergovernmental funding programs • Available non-debt funding (i.e. development charges) • Third party funding commitments • Outstanding funding commitment requirements • City debt implications <ul style="list-style-type: none"> ▪ Debt service ratio ▪ Debt issuance capacity (City and market capacity)
Operating Impacts	<ul style="list-style-type: none"> • Added operating costs • Added revenue or operating savings • Return on investment (i.e. social benefits, cost avoidance) • Maintaining service levels, service improvements, capacity creation or efficiencies • Technology requirements • Risk mitigation <ul style="list-style-type: none"> ▪ Criticality and time sensitivity ▪ Governance risks ▪ Procurement/market risk ▪ Execution risks

Note: It is expected that final considerations will evolve over time to reflect amended or updated priorities, strategic directions and deliverables as identified by City Council.

It is also expected that a minimum threshold of capital investments in each category (i.e. SOGR, Service Improvement and Growth Related) will be maintained to ensure a balanced capital program reflective of all capital needs.

Next Steps:

As indicated, the list above reflects preliminary considerations only, and will continue to be refined and developed in the coming months. Following further engagement and consultation and completion of the City’s Integrated Asset Management Plan, the criteria will be finalized, and staff will apply a scoring and weighting system to each item.

In addition, staff will develop a tool to facilitate and manage the prioritization process. During the 2025 budget process, the framework will be applied to capital project data collected, starting with new capital projects before expanding to the full 10-Year Capital Budget and Plan. Further updates on the capital prioritization framework will be provided during the 2025 budget process.

Once fully developed, a formalized City-wide prioritization framework can be used to make strategic decisions regarding the 10-Year Capital Plan, including both the funded and unfunded portions, during the annual budget process and any budget or funding-related deliberations. A new framework will allow Council to set strategic direction in the

allocation of available capital funds across and City Divisions and Agencies using a consistent and fair set of guiding principles, while considering overall affordability and capacity to deliver capital investments.

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SIGNATURE

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