

Capital Variance Report for the Twelve Months Ended December 31, 2023

Date: June 28, 2024

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's capital spending for the twelve-month period ended December 31, 2023. Furthermore, this report seeks Council's approval for in-year budget adjustments to the 2023 Approved Capital Budget and Plan to align with the year-end funding requirements.

As illustrated in Table 1 below, the City's 2023 capital expenditure was \$4.219 billion or 71.4% of the 2023 Approved Capital Budget of \$5.911 billion for the period ended December 31, 2023.

- Tax Supported City Programs and Agencies reported capital expenditures of \$2.994 billion representing 68.8% of their collective 2023 Approved Capital Budget of \$4.349 billion.
- Rate Supported City Programs reported capital expenditures of \$1.225 billion, representing 78.5% of their collective 2023 Approved Capital Budget of \$1.561 billion.

Table 1: Capital Variance Summary

Table 1			
	2023 Approved Budget*	2023 YE Actual Expenditures	
	\$M	\$M	%
City Operations	2,609.2	1,523.6	58.4%
Agencies	1,740.0	1,470.8	84.5%
Tax Supported:	4,349.2	2,994.3	68.8%
Rate Supported:	1,561.2	1,225.1	78.5%
TOTAL	5,910.5	4,219.4	71.4%

**Note: Includes 2022 carry forward funding*

The City's actual capital delivery in 2023 has improved from the average expenditure of \$3.65 billion from 2019-2022 to \$4.22 billion. In 2023, City Programs and Agencies enhanced budget planning and process management, including improving clarity and accountability in project execution and implementation, streamlining business planning processes, and improving decision-making. These actions along with improvements in the supply chain and other market conditions contributed to the on-time delivery or acceleration of capital projects. As a result, the City has achieved a spending rate of 71.4% in 2023, which is greater than the 2019-2022 average of 68%, with an aim for continued improvements in the coming years.

RECOMMENDATIONS

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

Capital expenditures totalled \$4.219 billion of the \$5.911 billion 2023 Approved Capital Budget.

Appendix 1 summarizes the 2023 actuals in comparison to the total Capital Budget by City Programs and Agencies.

Appendix 4 includes recommended in-year capital budget adjustments to the 10-Year Capital Plan, which includes \$59.259 million of reallocations between projects without net change to the total project costs, and a net cash flow reduction of \$128.006 million in 2023 due to the change in funding structure for SmartTrack, with the Federal government now funding Metrolinx's expenditures directly instead of routing the funds through the City.

DECISION HISTORY

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

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

The original budget was subsequently amended by City Council through the incremental carry forward report and quarterly variance reports to include additional in-year adjustments. As a result, the total adjusted budget for 2023 is \$5.911 billion.

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 2023-2032 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 actuals for Tax and Rate Supported Programs for the twelve months ended December 31, 2023 for major service areas.

Table 2: Capital Variance Summary

Table 2			
	2023 Approved Budget	2023 YE Actuals	
	\$M	\$M	%
Tax Supported Programs:			
Community and Social Services	458.1	299.7	65.4%
Infrastructure Services	792.2	518.6	65.5%
Development and Growth Services	632.6	297.0	47.0%
Corporate Services	617.6	362.1	58.6%
Finance and Treasury Services	103.0	42.7	41.5%
Other City Programs	5.7	3.4	60.9%
Sub Total City Operations	2,609.2	1,523.6	58.4%
Toronto Transit Commission (TTC)	1,368.0	1,213.5	88.7%
Transit Expansion (a TTC program)	81.5	54.9	67.3%
Other Agencies	290.6	202.4	69.7%
Sub Total - Tax Supported	4,349.2	2,994.3	68.8%
Rate Supported Programs:			
Solid Waste Management	90.1	59.8	66.4%
Toronto Parking Authority	82.5	59.1	71.7%
Toronto Water	1,388.7	1,106.2	79.7%
Sub Total Rate Supported	1,561.2	1,225.1	78.5%
Total	5,910.5	4,219.4	71.4%

The following City Programs and Agencies have significant capital programs, and are the main contributors to the overall actuals for the year:

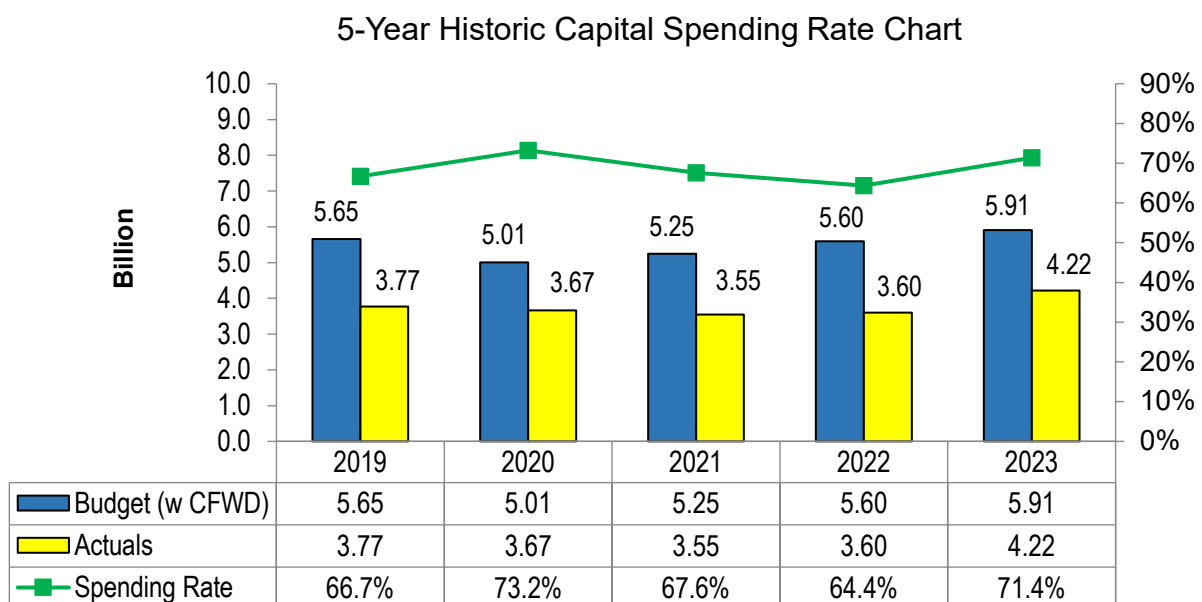
- TTC spent \$1.213 billion or 88.7% of its 2023 Approved Capital Budget. The largest areas of expenditure are as follows:
 - State of Good Repair projects were \$902.0 million, with the largest SOGR project being Purchase of Buses - SOGR (\$222.9 million).

- Legislated projects were \$136.5 million, with the largest legislated project being Easier Access-Phase III (\$115.2 million)
- Service Improvements projects were \$89.9 million, with the largest growth project being Line 1 Capacity Enhancement (\$22.4 million).
- Toronto Water spent \$1.106 billion or 79.7% of its 2023 Approved Capital Budget. The largest areas of expenditure are as follows:
 - State of Good Repair projects were \$466.8 million, with the largest contributing project being Watermain Replacement (\$73.8 million).
 - Service Improvement projects were \$406.6 million, with the largest service improvement project being Basement Flooding Relief (\$75.6 million).
 - Growth projects were \$122.2 million, with the largest legislated project being Downsview Main Keel Pumping Stations - Downsview Construction (\$36.1 million).
- Transportation Services spent \$513.8 million or 95.7% of its adjusted 2023 Capital Budget. The largest expenditures were on SOGR (largest project being Local Road Rehabilitation totalling \$111.3 million), and Health & Safety (largest project being City Bridge Rehabilitation totalling \$34.9 million).

Additionally, Parks, Forestry and Recreation also has large capital programs which have a significant impact on the overall spending rate. The program spent \$210.4 million representing a spending rate of 80.8% in 2023.

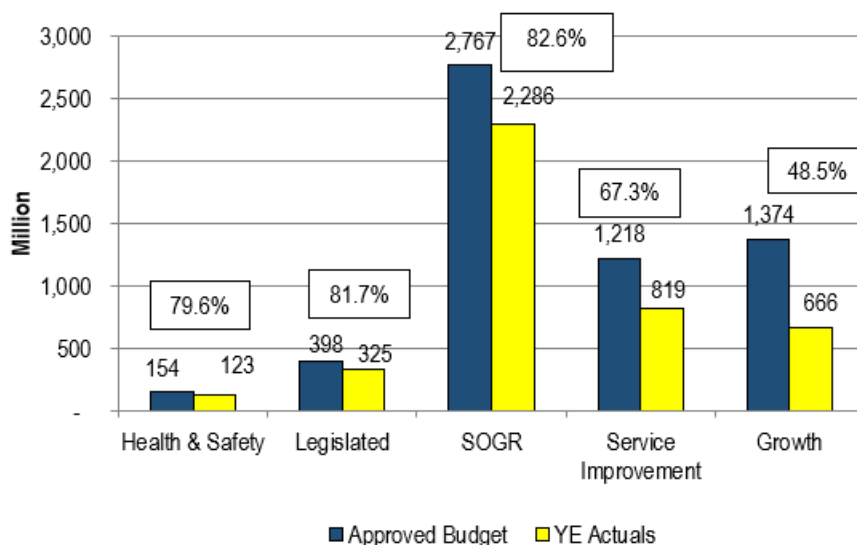
Figure 1 compares the actual year-end spending rate in each of the years 2019 to 2023 as detailed in this report. Spending rate is the actual capital expenditures as a percentage of the full year budget including in-year adjustments and carry forward funding from prior years' unspent budget.

Figure 1: 2019 - 2023 Actuals and Spending Rate (\$Billions)



The City's capital program encompasses five categories of capital projects: Health & Safety, Legislated, State of Good Repair, Service Improvement, and Growth Related. Figure 2 compares the 2023 Total (Tax and Rate) Approved Capital Budget and year-end actuals for each project category.

Figure 2: 2023 Approved Budget vs. Actuals by Project Category (\$Millions)



In 2023, SOGR expenditures saw an increase in comparison to prior years, reaching \$2.286 billion and achieving the highest spending rate among the five categories at 82.6%. This was closely followed by Legislated projects at 81.7% and Health and Safety projects at 79.6%. The substantial investment and expenditures in SOGR highlight the City's continued emphasis on maintaining and improving its infrastructure and flattening the curve of backlog increase.

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 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 projects.

Appendix 2a details 36 capital projects from the Tax Supported Programs that have been completed and ready to be closed by various City Programs and Agencies. These capital projects have a combined budget of \$111.1 million and actual expenditures of \$95.8 million, with a permanent underspend of \$15.3 million.

Appendix 2b details projects to be partially closed with 4 capital sub-projects. Together these sub-projects have a combined budget and actual expenditures of \$3.1 million, with a permanent underspend of \$0.003 million.

Capital project financing may have various funding sources. Projects are normally funded based on actual expenditures in the following hierarchy: 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/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:

Waterfront Revitalization Initiative

The in-year adjustment is to reallocate \$0.03 million to fund the over expenditure on Waterfront Secretariat and align the budget with year-end actual spending. The adjustment has no net impact on debt funding.

Transportation Services

The in-year adjustments are consisted of:

- Acceleration of \$68.672 million from future years to 2023 mainly due to work advanced ahead of schedule with favorable construction conditions.
- Reallocation of \$31.640 million within program in 2023 to align with actual project spending. This results in net zero impact to overall project cost and debt funding.

Transit Expansion

The SmartTrack project was funded by all three orders of government with City funding of \$878 million, Federal funding of \$585 million, and Provincial funding of \$226 million, for a total project cost of \$1.689 billion. Originally, \$320 million of Federal funding was budgeted in 2023. However, a new contribution structure to Metrolinx and City is confirmed, and City is now responsible for 60% of the amount (or \$192 million) in 2023. As a result, this report is requesting a cash flow reduction of \$320 million federal funding partially offset by the City's portion of \$192 million to accommodate this change. The net impact on 2023 budget cash flow totalled to \$128 million.

Toronto Transit Commission (TTC)

TTC's in year budget adjustments consists of \$27.573 million in reallocation of funding between projects to reflect up-to-date timing and scheduling and align with the year-end actual spending. The adjustments also include \$11.699 million addition and reduction of funding sources, with no net impact on the 2023 Capital Budget.

Toronto Public Health

The in-year adjustment is to reallocate \$0.063 million of funding source from Debt to Provincial Grants for the Dental Clinic Renovation - 160 Borough Drive project to align with actual funding received from the province.

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2023 Capital Variance Summary for the Twelve Months Ended December 31, 2023
Appendix 2a 2023 YE Capital Projects Recommended for Full Closure
Appendix 2b 2023 YE Capital Projects Recommended for Partial Closure
Appendix 3 2023 YE Major Capital Projects
Appendix 4 In-Year Adjustments for the Twelve months Ended December 31, 2023
Appendix 5 2023 YE Capital Variance Dashboard by Program and Agency