

## APPENDIX 1

# PARKS, FORESTRY AND RECREATION – CAPITAL PROGRAM – THE BACKLOG IN NEEDED REPAIRS CONTINUES TO GROW

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Auditor General's Office

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## EXECUTIVE SUMMARY

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***Parks, Forestry and Recreation's (PFR) 2009 capital plan - \$84 million***

The Parks, Forestry and Recreation Division manages an asset inventory valued at over \$6 billion. The Division has an approved capital plan of \$84 million for 2009 (2008- \$74 million). The 10-year capital plan includes an average planned spending of \$75 million per year over the next 10 years.

This report addresses a range of issues in connection with the capital program of Parks, Forestry and Recreation Division. Certain of the concerns raised in this report are well known but nevertheless continue to be outstanding after a significant period of time. In general terms, the concerns are as follows

*Many studies conducted but no plan exists to coordinate recommendations contained in each study*

***Specific strategies being developed but no master implementation plan***

The Parks, Forestry and Recreation Division has developed a strategic plan "Our Common Grounds" that sets the direction of its programs. The Division has also undertaken various other independent studies, the purpose of which is to set the strategic direction in various aspects of the recreation program. However, there is no master service and infrastructure implementation plan that coordinates all the strategies and plans taking into account the funding available.

***Risk of capital spending not directed to right facilities***

We recognize that capital projects are reviewed during the annual budget process. However, without a master plan, there is a risk that capital spending may not be directed at the right facilities or be consistent with an overall plan. Staff have advised that such a plan is currently being developed but could take several years to complete.

*State of Good Repair Backlog*

***Demands to address backlog and improve service***

The Division and the City, in general, are faced with demands to address a growing state of good repair backlog, as well as to improve or expand service.

***PFR's & City's capital plans do not adequately address state of good repair backlog***

The Parks, Forestry and Recreation Division's capital program does not adequately address the state of good repair backlog. The Division's backlog is estimated at \$233 million in 2008. This amount is expected to reach \$366 million by 2018, despite planned spending of \$409 million in the next 10 years. This amount is based on facility audits conducted by the Division. However, the Division has not completed audits on all facilities within the City and preliminary estimates of the backlog in these areas as at 2018 are in the range of an additional \$200 million, putting the anticipated backlog at closer to a total of \$600 million.

City-wide, the state of good repair backlog is estimated at \$1.42 billion in 2008 and expected to rise to \$1.85 billion by 2018, despite an average annual planned spending of \$1 billion.

***Difficult Decisions Required***

***Difficult decisions need to be made in relation to facilities no longer cost-effective to maintain***

Certain of the reports prepared by the Division have identified recreational facilities that are near or past their useful life expectancy and may no longer meet community expectations or be cost-effective to maintain. Preliminary results of studies completed on areas such as indoor pool and ice facilities suggest closure of some facilities, expanding some and building new ones. Therefore, in the interests of improved services and more cost-effective provision of services over the long run, difficult decisions will be required to close certain facilities when warranted based on service demands and financial constraints. It is simply not financially possible with existing resources to add all desired new facilities and services while maintaining all existing facilities.

***City-wide Capital Prioritization Needed***

***City-wide project prioritization framework needs to be developed***

From a corporate perspective, a city-wide prioritization of capital projects needs to be established. This issue was previously recommended in our 2005 review of Facilities and Real Estate maintenance. This recommendation remains outstanding.

Challenges to Completing Projects Need to be Addressed

***Need to report out on potential improvement to spending rates***

The Division's low capital spending rate has been an issue raised during budget deliberations. A Capital Budget Task Force was established to investigate ways to improve the Division's completion of approved projects on a timely basis. A report on the outcome of the task force is still outstanding.

New Sources of Financing Required

***Debt is primary source of capital funding but limited room to address backlog***

Approximately 95 per cent of the Parks, Forestry and Recreation Division's state of good repair backlog expenditures are funded through debt. The City's debt service guideline of 15 per cent of property taxes, raised from 10 per cent in 2006, is expected to be reached by 2011 so there is limited room to add to debt to address the repairs backlog.

***Other funding sources***

The Division also receives other capital funding from development charges and funds secured in agreements under Section 37 and 45 of the Planning Act. However, such funds are generally restricted to growth-related or service enhancement projects.

***Policies and procedures for private funding should be reviewed***

Although minimal (less than 1%), the Division does receive donations and has funding arrangements with private companies for capital projects. However, such funds are often provided for specific projects requested by the donor and generally for enhancement projects. Given the current economic climate, the potential for more private funding may be limited. However, policies and procedures need to be developed and proactive efforts taken as appropriate to obtain private funding.

***Other funding considerations***

When a new facility is built, it results in ongoing operating and maintenance costs for the City. Where such facilities are supported by the private sector, the City could reduce the burden on future years by obtaining initial funding at a level that would permit setting aside amounts to assist with future maintenance costs. While it may be difficult to obtain such funding, it is an area that should be considered.

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## BACKGROUND

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***PFR manages an asset inventory valued at over \$6 billion***

The Parks, Forestry and Recreation Division (PFR) manages an asset inventory valued at over \$6 billion, including parks, paths, trails, pools, water play areas, arenas, recreation centres, golf courses, ferry boats and other sports and recreation related facilities.

***PFR's 2009 capital plan - \$84 million***

The Division's 2009 approved capital plan was approximately \$84 million (2008 - \$74 million). Its 10-year capital plan for 2009-2018 is \$747 million, comprised of \$409 million (55%) for state of good repair projects, \$331 million (44%) for service improvements and growth related projects, and \$7 million (1%) for legislated projects.

***Aging infrastructure is a problem in Canada and the US***

As is common in most municipalities throughout Canada and the United States, the City is dealing with the consequences of aging infrastructure. Most of the City's parks and recreation facilities were built over 30 years ago. In certain cases, there has not been sufficient funding to maintain them in a state of good repair.

***Need to strike a balance in addressing competing pressures***

In addition, the Parks, Forestry and Recreation Division is faced with demands to improve or expand service. Given limited funding, the Division must strike a balance between addressing the state of good repair backlog and increased service needs. This requires not only obtaining additional funding, but also managing initiatives that increase operating expenditures as a result of growth and pressures to enhance existing services.

***PFR's Strategic Plan, Our Common Grounds, sets direction for programs and service delivery***

In 2004, Council approved the PFR's strategic plan, "Our Common Grounds." The plan's 53 recommendations provide the framework and direction for the Division's program and service delivery. The strategic plan was developed after significant stakeholder consultation and focused at a fairly high level on environmental stewardship, development of children and youth and the promotion of life long activity for the City's residents.

***Recreation  
Facilities Report  
completed***

Following up from the “Our Common Grounds” report was a further 2004 study entitled “Recreation Facilities Report”. Certain of the key challenges for the provision of recreation facilities identified in this report were:

- maintaining and renewing facilities
- responding to growth and redevelopment
- rationalizing facilities to improve efficiency
- harmonizing facilities across the former municipalities

Various other management studies have been undertaken or are underway on major facilities such as indoor pools, indoor ice facilities and sports and recreation facilities.

***PFR aligns  
projects with  
various Council-  
approved  
initiatives***

The intent of PFR’s capital program is essentially to align its projects with various Council-approved initiatives such as the Clean and Beautiful City and Strengthen Our At-Risk Neighbourhoods.

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## **AUDIT OBJECTIVES, SCOPE AND METHODOLOGY**

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The Auditor General’s Audit Work Plan included a review of the capital program administered by PFR. This review was selected generally because of the significant expenditures incurred on the PFR capital program.

***Audit objective***

The objective of this review was to assess the extent to which PFR manages its capital program with due regard to economy, efficiency and effectiveness.

***Audit scope***

The focus of the review was on the overall management of the capital program from a broad high level perspective. The review covered parks and recreation projects included in the 2007 and 2008 five-year capital programs and the recent 2009 10-year capital plan. The review did not include a detailed analysis of construction contracts or payments. Various reviews on contract management have been completed independently by the Auditor General.

***Audit  
methodology***

Our audit methodology included the following:

- review of capital budgeting policies, procedures and related by-laws
- review of Council reports and management studies related to PFR's capital program
- review and analysis of financial data
- review of PFR's capital asset management system
- review of reports from other jurisdictions including
  - New York
  - Chicago
  - Vancouver
  - Calgary
  - Winnipeg
  - Ottawa
  - Newmarket
- interviews with staff of PFR, Financial Planning Services, Accounting Services, Legal Services, and Toronto Office of Partnerships
- review of presentations made by staff to the Parks, Forestry and Recreation Capital Budget Task Force.

***Compliance with  
generally  
accepted  
government  
auditing  
standards***

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## AUDIT RESULTS

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### 1. Need to Develop a Master Service and Infrastructure Implementation Plan for Parks, Forestry and Recreation

Over the past number of years, PFR has completed a number of major studies. In addition to those studies which have been completed, a number of other studies are in progress.

*PFR's 2004 Strategic Plan contains 53 recommendations*

In 2004, the Toronto Parks and Recreation Strategic Plan called "Our Common Grounds" was completed. The strategic plan was approved by Council in July 2004. Its 53 recommendations set the framework and direction for City parks and recreation programs and service delivery.

*Recreation Facilities Report, approved in 2004, contains 41 recommendations*

A number of months subsequent to the issuance of "Our Common Grounds", PFR prepared a Recreation Facilities Report, which was approved in principle, by Council at its meeting of September and October 2004. The Recreation Facilities Report contains 41 recommendations, consistent with "Our Common Grounds" strategy, outlining directions for the planning and provision of City recreation facilities, including aquatics, community centres, ice facilities, specialized sports, sports fields and trails.

Certain of the recommendations included in the Recreation Facilities Report were to

- complete a report on an indoor pool provision strategy by 2004
- complete indoor ice provision strategy by 2005
- develop 15 new or expanded community centres in 10 years
- develop one city-wide and three district level skate parks
- provide 77 additional soccer fields by 2021, in partnership with school boards and agencies
- designate or develop 31 "multi-purpose" sports fields.

***Phase One of  
Indoor Pool  
Strategy  
recommends  
reduction in the  
number of pools***

In accordance with the approved recommendations contained in the Recreation Facilities Report, an indoor pool strategy study was initiated. The study was designed in two separate phases. Phase 1 of the report summarized the analysis and public input which led to recommendations concerning a strategy for indoor pool provision. Phase 2 of the report was intended to address an implementation plan for the approved strategy. In June 2005, Phase 1 of the Indoor Pool Provision Strategy was presented to Council. Phase 2 of the report is still outstanding.

***Significant  
findings in  
Indoor Pool  
Strategy Phase  
One report***

The significant findings in the Phase 1 report of the Indoor Pool Provision Strategy included the following:

- City-owned pools have an average age of 31 years and were in fair to poor condition
- Toronto District School Board pools have an average age of 35 years, with most in poor to very poor condition
- 40 per cent of all swims in City-owned indoor pool facilities take place in the four best quality and largest City pools
- quality and size of pool are major determinants of participation
- among Canadian cities, Toronto has the lowest swim per capita ratio while enjoying the largest number of pools per capita
- status quo is not sustainable

***Recommended  
option in Indoor  
Pool Strategy  
Phase One report***

The report recommended a scenario that would reduce the total number of pools from 71 (30 City-owned and 41 owned by the Toronto District School Board) to a range of 37-39 pools. Preliminary estimates showed new capital costs of \$380-\$400 million over 20 years for the recommended scenario, which would replace a large number of small, older pools with fewer, larger and higher quality pools.

Two other options were also presented that suggested a reduction in the number of pools to a range of 43 to 51.

***Council deferred decision on Indoor Pool Strategy, pending completion of Phase Two***

Council did not approve the recommended scenario in the Phase 1 report, but directed that:

- the Phase 2 implementation report examine the two other options included in the report; include different options for the number and types of pools; and develop an option where no pools will be closed
- in the interim, no pools be closed
- no reduction in use of Toronto District School Board pools
- a Toronto Aquatic and Pool Strategy Working Group be established to explore options for a new partnership with the Toronto District School Board.

***Phase Two of Indoor Pool Strategy still outstanding***

Phase 2 of the indoor pool provision study was expected to be completed and reported by November 2005. Subsequent events related to decisions on the use of Toronto District School Board pools have delayed finalization of the Phase 2 study. Certain work has been completed on the Phase 2 study by the consultants. In regard to City operated pools the initial findings of the report indicates the need to improve the quality of the pools and that certain pools are simply too small and too poor quality to justify investing in improvements.

***Indoor ice provision strategy still outstanding***

With respect to the development of the indoor ice provision strategy, a report was expected to be completed by 2005. Preliminary results of the study indicate the need to improve, expand or decommission certain existing indoor ice pads, as well as build new ones.

***Various strategies developed but no master implementation plan***

Other studies in progress include the Sports Strategy Framework, which deals with sports facilities, and the Parks Renaissance Strategy, which deals with parks and trails. The studies in progress are intended to define the infrastructure network required to support planned programs and services.

***Reports or studies completed or in progress***

In summary, the following reports or studies have been completed or are in progress:

- Our Common Grounds, 2004
- Recreation Facilities Report, 2004
- Indoor Pool Provision Strategy - Phase 1, 2005
- Long Term Provision Strategy for Indoor Ice Facilities (in progress)
- Sports Strategy Framework (in progress)
- Parks Renaissance Strategy (in progress)
- Indoor Pool Provision Strategy – Phase 2 (on hold)

***Lack of master plan creates risk of funds not being directed to right projects***

Many of these reports have been prepared independently and focus specifically on one aspect of PFR's recreation activities. While there has been a certain level of coordination in the preparation of these reports, each one for the most part is a stand-alone document. There is no summary or coordinating master report which prioritizes each of the recommendations identified in individual reports. Without such an overall plan, there is a risk that capital spending may not be directed toward priority projects. Staff has indicated that they are developing a master plan which will consolidate and prioritize recommendations contained in individual reports.

***Decisions needed to identify and deal with underutilized facilities***

Regardless of the final content of the master plan, the Division needs to ensure that it has a method of evaluating whether facilities are of poor quality, underutilized, no longer meet community expectations or are not cost-effective to maintain. In these circumstances, decisions are required in connection with the continued use of those facilities identified.

***Closure of underutilized facilities should be considered***

Without a plan for evaluating cost effectiveness there is a risk that the City will spend limited resources on inefficient facilities. In addition, building new facilities without retiring old, underutilized and inefficient ones simply increases the City's financial pressures, both operating and capital.

One of the obvious solutions in addressing underutilized facilities is the closure of such facilities.

***Affordability a major determining factor on potential facility closure***

Dealing with the potential of closing any recreation facility and determining which facility to close is difficult and will result in significant community and staff related implications. In these circumstances, we appreciate that cost is not the only consideration. However, given limited funding, affordability ultimately becomes a major determining factor.

*Need for  
objective criteria  
and open process  
to address  
potential facility  
closures*

In order to facilitate decisions in relation to the future use of recreation facilities, the development of criteria to guide such decisions should be addressed. The Division has developed and implemented a capital asset management system which uses a facility index to prioritize state of good repair. While the system uses criteria such as age, condition and capital costs, it does not consider other factors which could signify that it is no longer cost-effective to maintain the facility. Other criteria should include, but not limited, to the following

- ongoing operating costs
- extent of public participation
- potential of increasing public participation
- location of the facility and proximity to other recreational facilities
- impact of the closure of the facility on the community
- changing demographics

Any decisions on the future use of any recreation facility should be consistent with the Council-approved “Our Common Grounds” strategic plan.

**Recommendations:**

- 1. The General Manager, Parks, Forestry and Recreation, develop a comprehensive master service and infrastructure plan, incorporating the Division’s “Our Common Grounds” strategy and all related studies being developed or planned pertaining to parks and recreation facilities, and report to the Community Development and Recreation Committee by June 30, 2010. Such master plan to include, but not limited to**
  - a. specific action plans, timelines and responsibility for implementation**
  - b. estimated costs and potential funding sources or partnership opportunities to be explored**
  - c. reporting on the status of the master implementation plan as part of the annual capital budget submission.**

2. **The General Manager, Parks, Forestry and Recreation, take appropriate steps to**
  - a. **develop criteria for determining when a City facility is considered to be no longer cost-effective to maintain, taking into consideration such factors as utilization, ongoing operating and capital maintenance costs, location, and proximity to other facilities, community impact and changing demographics**
  - b. **where practical, incorporate the criteria developed into the capital asset management system**
  - c. **compile a comprehensive inventory of all facilities that are no longer cost-effective to maintain based on criteria developed in (a.)**
  - d. **identify opportunities for consolidation of operations within existing facilities or potential new ones and recommend facility closures, if warranted**
  - e. **determine the full financial implications of either maintaining, enhancing or closing facilities, including any potential program changes resulting from each option**
  - f. **where a facility closure is recommended, develop alternate accommodation for viable affected programs**
  - g. **conduct appropriate community consultations of any planned actions.**

## **2. Need to Develop a City-wide Prioritization Framework for Capital Projects**

*Aging infrastructure common problem in North American cities*

Many cities throughout North America are struggling to address aging infrastructure. Based on a 2006 study completed for the Federation of Canadian Municipalities, Canada requires approximately \$100 billion to upgrade its roads, bridges, sewer plants and other vital infrastructure.

*Some issues need to be addressed on City-wide basis*

While our review focused on facilities relating to parks, forestry and recreation, some of the issues identified such as prioritizing capital projects need to be addressed on a City-wide basis.

*Need for City-wide prioritization for capital projects*

Currently, each program within the City uses their own prioritization criteria to select capital projects. However, there is no formal City-wide prioritization framework for capital projects. Given inadequate funding to address both the state of good repair backlog and the demand for enhancement and growth-related projects, it is important that a City-wide prioritization be established to ensure resources are used towards high priority projects.

*Corporate-wide prioritization for new projects planned for 2009 budget process still outstanding*

During the 2008 capital budget deliberations, it was reported that a corporate-wide prioritization framework for new capital projects would be addressed for the 2009 budget. A new Office of Capital Infrastructure Coordination was also created to coordinate major new capital projects that involve multiple City programs. We understand that the development of a corporate-wide prioritization framework will be undertaken by the Financial Planning Division. At the time of this report, this has not yet been completed.

*2005 Audit recommendation of city-wide prioritization of capital repairs still outstanding*

In our 2005 review of Facilities and Real Estate maintenance, we recommended that

*“the Deputy City Manager and Chief Financial Officer ensure priorities are established on a City-wide basis for the capital repair of City-owned buildings. All divisional capital repair budgets should be evaluated and priorities established irrespective of budget responsibilities.”*

While this recommendation has not yet been fully implemented, we understand that the implementation is in progress.

**Recommendation:**

- 3. The City Manager give priority to the development and implementation of a City-wide prioritization framework for capital repairs, as previously recommended in an Auditor General’s report entitled “Maintenance and Administrative Controls Review – Facilities and Real Estate” dated September 2005. Further, the priority framework be enhanced by including all new capital projects.**

### **3. Parks, Forestry and Recreation Division Needs to Improve Its Capital Project Spending Rate**

***Capital spending rates reported as part of annual budget review***

As part of the annual capital budget review, divisions report their capital spending rates based on actual expenditures compared to approved annual plan. Although some capital projects may extend beyond one year, the annual plan represents funds required to be spent during a given year.

***PFR capital spending rate an issue***

The Division's low spending rate in 2005 and 2006 had been a concern raised during budget deliberation.

***Capital Budget Task Force formed to review PFR capital spending rate***

During the review of the Division's 2007-2016 capital budget submission, Council recommended that:

“the Chairs of the Budget Committee, the Parks and Environment Committee, and the Community Development and Recreation Committee form a task force:

1. to investigate ways of improving the capital project completion rate within Parks, Forestry and Recreation;
2. to find ways and means of increasing the capital allocation for Parks, Forestry and Recreation in 2008 and beyond, while respecting the City-wide corporate debt guideline;

and that they work in conjunction with the City Manager's Office and other appropriate staff.”

***Report on outcome of the Capital Budget Task Force still outstanding***

In December 2007, during the review of the Division's 2008-2016 capital budget, Council recommended that “Parks, Forestry and Recreation report to Budget Committee in May 2008 on the outcome of the Capital Budget Task Force”. This report is still outstanding, even though the Task Force has met on a number of occasions.

***Challenges identified***

Staff indicated that the Capital Budget Task Force met three times in 2007 and identified challenges that contribute to project delays, as well as opportunities to address them. Some of the challenges identified included the following:

- extended consultation process
- delays in approvals from other government agencies and City divisions
- delays in receipt of third-party funding
- staffing limitations
- changes in scope of work
- weather, site conditions, shortage of materials, and labour strikes

***Opportunities identified***

Certain of the opportunities identified to address the above issues were as follows:

- setting standards for consultation protocols
- improving communications with outside agencies and City divisions
- building flexibility in the approval and hiring of staff
- defining project scope to eliminate or minimize changes
- tracking changes in scope, monitoring spending and adjusting cash flows to suit the circumstances
- improving the management and communication of the impact of unforeseen delays and contingency planning

We have reviewed the documentation presented to the Capital Budget Task Force and, in particular, the section categorized as “Challenges and Issues.” We appreciate that certain of these challenges are difficult to address such as weather conditions and delays in receipt of third-party funding. However, other challenges are more easily addressed such as closer co-operation between City divisions, project scope changes and various issues with contractors.

Table 1 below shows the Division's spending rates since 2001.

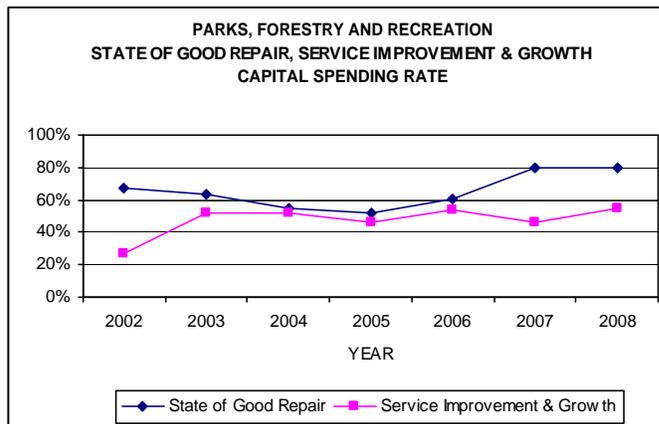
<b>Table 1: Parks, Forestry and Recreation Division Capital Spending</b>			
<b>Year</b>	<b>Approved Spending \$000's</b>	<b>Actual Spending \$000's</b>	<b>% Spent</b>
2008	114,494	74,080	65%
2007	97,825	59,065	60%
2006	115,714	64,784	56%
2005	88,757	42,631	48%
2004	77,506	47,160	61%
2003	72,914	44,659	61%
2002	65,341	31,853	49%
2001	63,788	39,749	62%

Source: PFR 2009-2018 capital budget submission (2008 adjusted per capital variance report)

***PFR capital spending rate improved since 2005***

As can be seen from the above chart, the Parks, Forestry and Recreation Division has consistently improved its capital spending rate since 2005. The Division's 2008 spending rate of 65 per cent is the same as the city-wide average spending rate.

The following graph shows an analysis of the Division's spending rate by type of capital projects.



*PFR spending rate on state of good repair projects improved, but not on enhancement or growth-related projects*

As illustrated in the above graph, the Division has made progress in improving its capital spending rate on state of good repair projects, but not on service improvement and growth-related projects. Staff indicated that factors outside their control, such as extended public consultations, which are required particularly for service improvement and growth-related projects, continue to contribute to project delays. In addition, some projects are managed by other divisions but included as part of PFR's capital budget.

Of the factors mentioned above, public consultation was repeatedly identified as significantly impacting project timelines. The Division recognizes that such consultation is critical to project success. Given this, project timelines need to be revised to allow for the appropriate public consultation. In addition, it may be possible to condense the elapsed time for public consultation by establishing Council approved guidelines or protocols for the consultation process.

*Need to further improve project completion*

We recognize that the Division has undertaken efforts to address some of the issues identified and improve its capital spending rate. However, more work is required to expedite project completion, such as ensuring completion goals accurately reflect the time required for public consultation, setting protocols for the consultation process and improving communication with external agencies and city divisions.

**Recommendation:**

- 4. The General Manager, Parks, Forestry and Recreation report to Budget Committee, as recommended by Council, by November 2009, on the outcome of the Capital Budget Task Force. Such report to include**
  - a. issues identified and factors contributing to project delays**
  - b. recommendations to address issues identified and minimize delays**
  - c. status, timelines and responsibility of implementation of each of the recommendations being made.**

#### **4. Need to Develop Sustainable Long-Term Funding Strategy to Address State of Good Repair Backlog**

***27% of recreational facilities over 40 years old***

As previously indicated, the City, like most cities across North America, is dealing with the consequences of its aging infrastructure. Most facilities were built over 30 years ago and are reaching or have passed their life expectancy. More than 27 per cent of the City's recreational facilities are more than 40 years old.

***PFR's 2008 state of good repair backlog estimated at \$233 million continues to grow***

PFR's state of good repair backlog is estimated at \$233 million at the end of 2008. As reported in the 10-year capital plan, the backlog is projected to increase to \$366 million by 2018, despite planned capital spending of \$409 million in the next 10 years. These costs have been estimated based on facility assessment audits, conducted by outside consultants. The purpose of the facility audits was to assess the condition of each facility and identify needed repairs.

***Estimated state of good repair backlog could reach \$600 million by 2018***

While most of the facility audits have been completed, some areas such as ferry dock facilities, ball diamonds, bocce courts and cricket pitches have yet to be audited. The state of good repair backlog for these particular areas has not been included in the above estimates. In 2007, staff made preliminary estimates of the repairs backlog in these unaudited areas. If these estimates were added to the reported backlog in 2018, it would increase in the range of \$200 million to approximately \$600 million (about 10 per cent of the Division's 6 billion asset base).

***Debt is primary source of capital funding***

PFR relies primarily on debt to fund state of good repair expenditures. In fact, 95 per cent (\$389 million) of the planned state of good repair expenditures for 2009-2018 will be funded by debt.

***City backlog increasing despite planned spending of \$1 billion per year***

At the City-wide level, the state of good repair backlog for all capital facilities is estimated at \$1.42 billion at the end of 2008 and projected to reach \$1.85 billion by 2018, despite an average planned capital spending of \$1 billion annually over the next 10 years. The rate of increase in the City's capital plan is still not sufficient to halt the growth of the state of good repair backlog. Delaying needed capital repairs ultimately results in higher future costs, mainly due to higher construction costs and additional work required as conditions at facilities deteriorate.

***Little room to raise new debt***

With respect to debt funding, the City's \$2.5 billion of net debt in 2007 is projected to rise to \$3 billion by 2013. In 2006, the City raised its debt service guideline from 10, to 15 per cent of property taxes and expects to reach this level by 2011. This means that for every dollar of property taxes, 15 cents will go towards making interest and principal payments on debt. The result of this is that it reduces the amount available for annual operating expenditures. In summary, it is unlikely that debt can be used any further to minimize the growth in the state of good repair backlog.

***Other funding sources***

Capital funding is also provided from development charges and funds secured in agreements under Section 37 and 45 of the Planning Act. While these are important sources of funds, they provide little relief for state of good repair problems. Development charges are restricted toward growth-related and enhancement projects and only very limited amounts received under the Planning Act may be directed toward repairs.

With respect to tax funding, the City sets a portion of the tax levy for capital projects on a pay as you go basis. This funding, also referred to as capital from current, reduces reliance on debt issuance and generally provides for capital needs of assets that have a shorter life cycle. The 2009-2018 capital plan provides annual increases of 10 per cent in the capital from current funding from \$150 million in 2009 to \$354 million in 2018.

***City exercised new taxing powers and adopted two new taxes***

In addition, the City recently exercised its taxing powers under the City of Toronto Act. In October 2007, Council approved the adoption of a new Land Transfer Tax and Vehicle Ownership Tax. In 2008, these taxes generated net revenues of \$155 million and \$13 million respectively. These taxes are budgeted to generate \$160 million and \$46 million respectively in 2009.

***Capital budget allocation among City programs***

A breakdown of the approved capital budget allocation in the last five years for PFR and the total City tax-supported programs is shown on Exhibits 1 and 2, respectively. As illustrated in Exhibit 1, funding toward planned service improvement and growth-related projects is greater than for state of good repair projects.

*State of good repair backlog increasing for PFR but decreasing for other programs*

Charts showing the estimated state of good repair backlog in total and for the top seven tax-supported programs are provided in Exhibits 3 and 4, respectively. As illustrated in Exhibit 4, while the state of good repair backlog is decreasing in some programs, PFR's backlog, and the City's in total, continues to increase.

*There may be opportunities to re-allocate capital funding to state of good repair*

Despite increases in the various funding sources, the state of good repair backlog continues to increase. There is a need to review the funding allocations to determine whether state of good repair funding could be further increased through re-allocation from growth related or enhancement projects. In addition, a review of the total funding allocation among programs at the City-wide level may also be warranted to determine if a reallocation is appropriate. Such an exercise will be facilitated by completion of the prioritization framework in Recommendation number 4 above.

In addition, given that new infrastructure projects require future capital repairs, funding options for such costs should be provided. Currently, the operating impacts of capital projects are considered at time of project approval. However, there is often no provision for future capital costs, adding pressure to the state of good repair backlog. Considering both future operating and capital costs of new infrastructure projects would help evaluate affordability of the new infrastructure at time of project approval.

#### **Recommendations:**

- 5. The City Manager, review the funding allocation between state of good repair projects and service improvement or growth-related projects, both at the division and city-wide levels, and take appropriate steps to develop a sustainable long-term strategy to reduce the current and projected state of good repair backlog.**
- 6. The Deputy City Manager and Chief Financial Officer require all major projects for new infrastructure include future capital maintenance costs for reporting under financial implications at the time of project approval.**

## **5. Need for More Coordinated Approach in Pursuing Private Funding**

As indicated previously, current funding is not sufficient to address both the state of good repair backlog and demands for service improvements.

### ***Opportunity for private funding***

Based on the experiences of other municipalities in Canada and the United States, there are opportunities to attract private funding through naming rights, partnerships or philanthropic donations. Recent examples include the Millennium Park in Chicago and the Magna Centre in Newmarket, which both generated substantial private contributions toward municipal projects.

### ***City Boards generate naming rights revenue, but not for City facilities***

Certain of the City's Boards have generated substantial revenues from naming rights such as BMO Field, the Direct Energy Centre and the Sony Centre. However, the City has not actively pursued similar arrangements for City facilities, particularly parks and recreation facilities. The City needs to develop a coordinated plan in pursuing private funding, giving consideration to the revenue-generating opportunities of naming rights, and identify potential projects that would be appropriate for such funding.

### ***Parks and Recreation Naming and Naming Policy approved in 2002 restrictive***

According to a Parks and Recreation Naming and Renaming Policy, approved by Council in 2002, a park or recreation facility can only be named after an individual or group. The policy states that names which may be interpreted as an advertisement must not be used. Therefore, naming a park or facility after a corporate sponsor would be viewed as an advertisement and would not be allowed.

### ***Revenue potential from naming rights***

There is a potential to generate additional infrastructure funding through naming rights although the potential is likely limited given the current economic climate. Various plans to expand or build new facilities represent opportunities to attract this type of private funding. We recognize the reluctance to granting naming rights on City facilities, generally due to negative public perception or fear of potential loss of public control and the appearance of "selling out". Research also indicates that private partnerships can be risky if entered into without adequate assurance that the City's and, by extension, the public's interests are protected.

However, with proper policies and procedures that ensure transparency and consistency in dealing with private funding arrangements, while protecting the interests of the City and the public, the City could benefit from private funds for capital projects.

***Toronto Office  
of Partnerships  
to develop a  
naming rights  
policy***

The Toronto Office of Partnerships is currently in the process of developing a naming rights policy for Council's consideration. Policies already exist for donations and unsolicited bids and should be considered when developing the naming rights policy in order to ensure consistency.

**Recommendations:**

- 7. The City Manager, in consultation with the General Manager, Parks, Forestry and Recreation and the Director, Toronto Office of Partnerships, develop, for approval by Council, a comprehensive City-wide policy on naming rights and other private funding arrangements, such policy to**
  - a. consider all existing policies related to**
    - i. Parks and Recreation Naming and Renaming Policy**
    - ii. Donations policy**
    - iii. Advertising**
    - iv. Unsolicited bids**
    - v. Sponsorships and partnerships**
  - b. include guidelines on**
    - i. eligibility criteria for facilities to be considered for naming rights**
    - ii. responsibility and control processes for securing and accepting naming rights or other private funding arrangements**
    - iii. the creation of endowment, or similar funds, to offset future maintenance and repair costs for new facilities put in place under this policy.**

**8. The Director, Toronto Office of Partnerships, in consultation with appropriate divisional staff, identify all potential projects and facilities that may benefit from naming rights or other private funding arrangements and, with the approval of Council, pursue such funding according to corporate guidelines.**

## **6. Need to Make Additional Use of Information Management System**

### ***PFR work order system under development***

An essential part of determining whether to improve, expand or replace a facility is reviewing the total cost of maintaining it, including both operating and capital repairs. Currently, there is no centralized tracking of all costs by facility, partly because some facilities are maintained by PFR and some are maintained by the Facilities and Real Estate Division. PFR is in the process of implementing a work order system, which would facilitate centralized tracking of operating costs by facility on a go-forward basis for facilities they maintain themselves. Staff has indicated that this system will be expanded to include capital costs in 2009. For parks and recreation facilities maintained by Facilities and Real Estate Division, operating costs are tracked on that Division's own work order system. While some coordination is required, once PFR's system is fully functional staff will have access to information on total costs to maintain their facilities.

### **Recommendation:**

**9. The General Manager, Parks, Forestry and Recreation, give priority to completing the development and implementation of the work order system for Parks, Forestry and Recreation Division to provide the tracking of both operating and capital costs of each facility.**

## **7. Need to Review Approvals for Redirection of Cash-in-Lieu Payments for Parkland Dedication**

### ***Interim cash-in-lieu payment allocation policy requires 25/25/25/25 per cent split***

One source of funding for new parkland comes from Section 42 of the Planning Act, which gives the City authority to require either land or cash payment for parkland purposes as a condition of development or redevelopment of land. In 1999, City Council adopted an interim policy on the allocation of cash-in-lieu payments that split funds equally between parkland acquisition and parkland development and further between district and city-wide basis. This policy remains in place.

***100% cash-in-lieu payments redirected to one ward, contrary to Council policy***

Certain recommendations have been made at Community Council to redirect 100 per cent of cash-in-lieu payments toward a local ward, rather than the allocation split approved by Council. The recommendations submitted for Council approval did not indicate that the allocation was contrary to Council's policy. While the recommendations were subsequently approved by City Council, there was no express approval for the waiver of the policy previously approved by Council. We have consulted with the City Solicitor and the City Clerk, who are reviewing this matter.

**Recommendation:**

- 10. The City Clerk, in consultation with the City Solicitor, clarify Council procedures with respect to recommendations at Community Councils on matters that are contrary to Council policy, and consider requiring that such recommendations state explicitly that a Council policy is being contravened.**

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## CONCLUSION

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*Issues identified  
at PFR have  
City-wide  
implications*

This report presents the results of our review of the Parks, Forestry and Recreation Division's capital program.

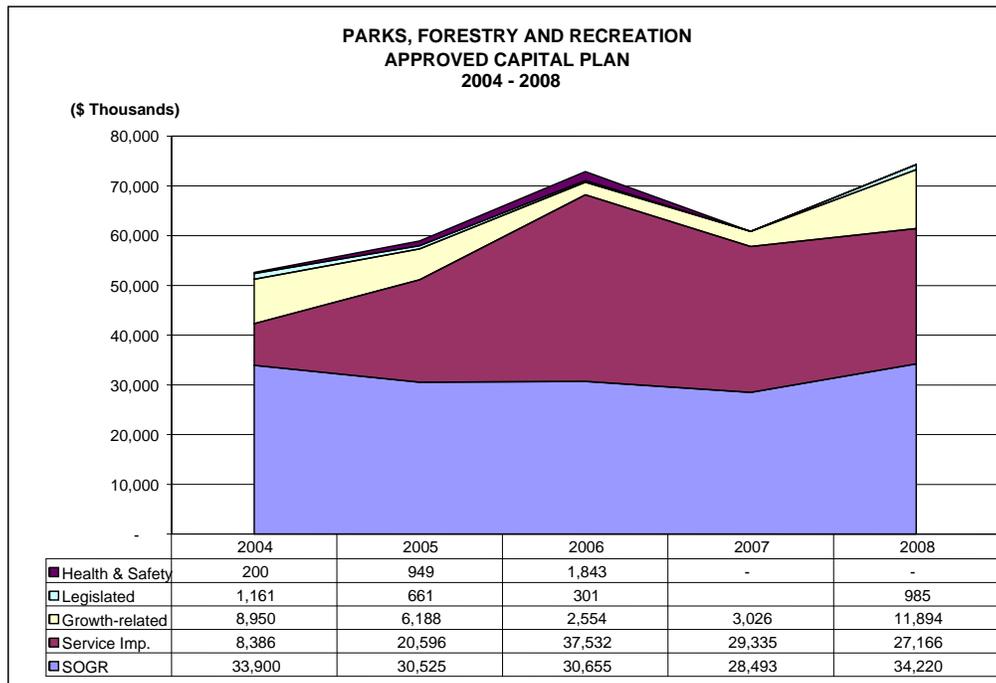
The major issues identified in our review include the following:

- lack of a master service and infrastructure plan to coordinate all the Division's strategies and initiatives
- lack of City-wide prioritization for capital projects
- need to ensure that approved capital expenditures are completed on a timely basis
- inadequate funding to address the City's state of good repair backlog, currently reflected in the growing backlog of PFR and Transportation Services
- need for more proactive efforts to pursue private funding

Most of the issues identified have broader implications from a corporate perspective and therefore require City-wide solutions, particularly with respect to capital project prioritization and funding.

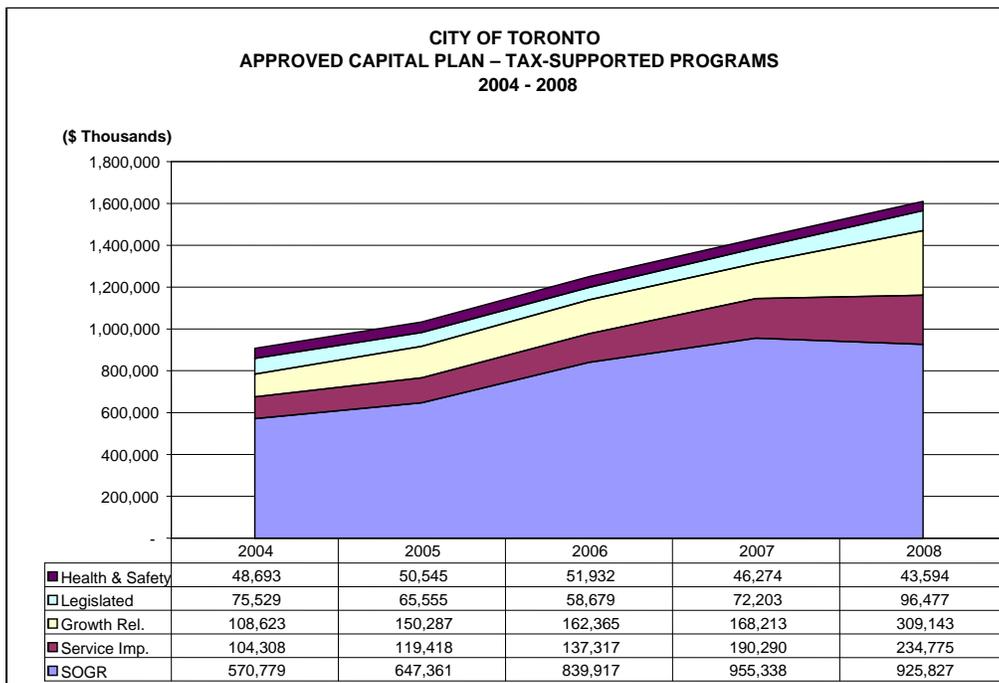
Addressing the recommendations in this report will enhance the Parks, Forestry and Recreation Division's and the City's efforts in improving and expanding significant infrastructure assets through more cost-effective management of limited resources.

**EXHIBIT 1**



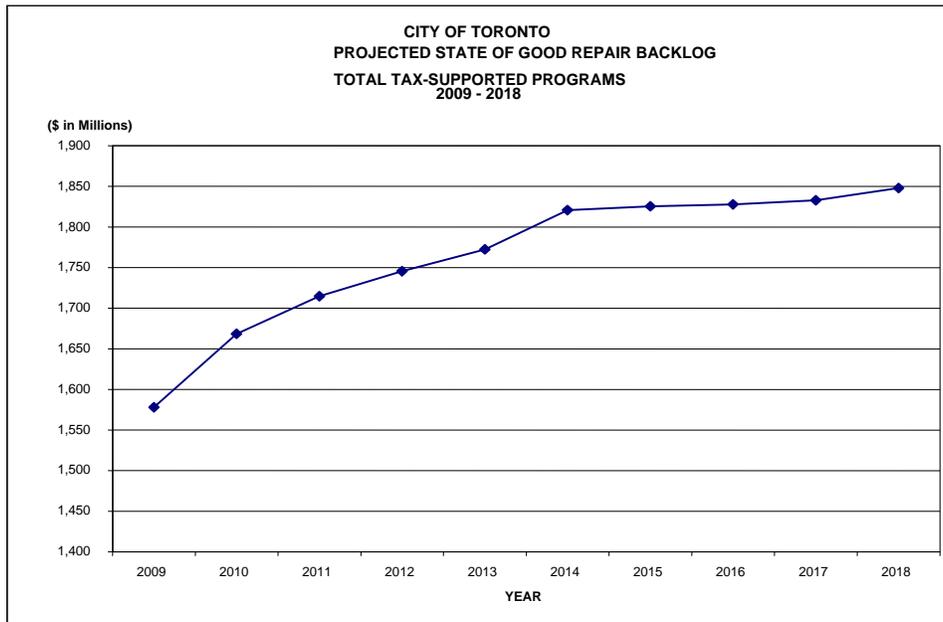
Source: City of Toronto Financial Planning (Excludes carry-over)

**EXHIBIT 2**



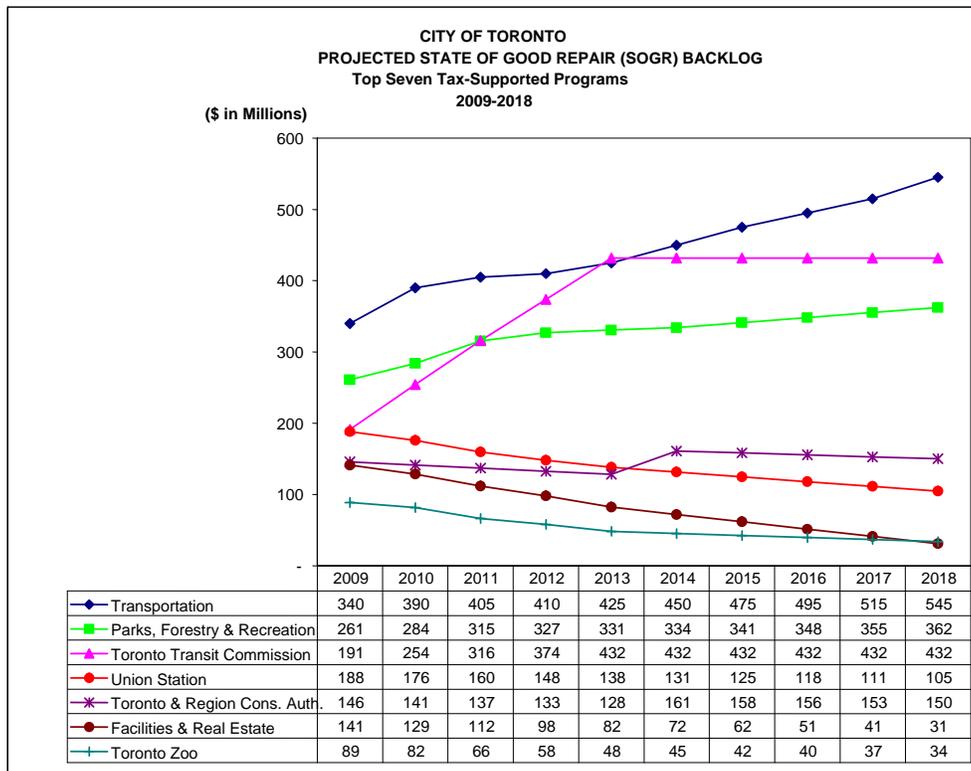
Source: City of Toronto Financial Planning

**EXHIBIT 3**



Source: City of Toronto Financial Planning

**EXHIBIT 4**



Source: City of Toronto Financial Planning