

Analyst Briefing Notes

Budget Committee Review

(February 8, 2007)

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PART I: CAPITAL PROGRAM**Executive Summary**

- The 2006 Approved Capital Budget of \$80.915 million was 21% spent as at September 30, 2006. Actual expenditures by year-end are anticipated to be \$31.892 million, or 39% of the Approved Budget. This projected under expenditure is primarily attributed to the vehicle delivery schedules as determined by the manufacturers' build out dates; heavy vehicles and specialized equipment take longer to be assembled and built. This is particularly true for Solid Waste, Transportation, Fire and EMS vehicle and equipment needs. The majority of these deliveries are expected to carry over into 2007.
- The 2007 Recommended Capital Budget, and 2008 to 2011 Plan total \$205.541 million, with 2007 cash flow of \$82.932 million, \$36.189 million in 2008, \$29.039 million in 2009, \$28.922 million in 2010 and \$28.459 million in 2011 to be fully funded from the Vehicle Reserves.
- The 2007 Recommended Capital Budget, including previously approved commitments, requires new 2007 cash flow of \$44.923 million. This cash flow combined with carry forward funding of \$38.009 million for 2006 projects brings the total 2007 Recommended Capital Budget to \$82.932 million gross, fully funded from the Vehicle Reserves.
- 96.6% of the 2007 recommended new cash flow is allocated to State-of-Good-Repair projects at \$43.417 million; 1.5% to Legislative or Contractually required projects at \$0.670 million and 1.9% to Service Improvement projects at \$0.836 million.
- The 2007-2011 Capital Plan is primarily comprised of funding to maintain the state of good repair of the City's fleet utilized by the various Programs. In 2007, the Plan will fund the replacement of vehicles in the amount of \$3.564 million for Parks, Forestry and Recreation, \$5.075 million for Solid Waste, \$1.580 million for Transportation, \$3.500 million for EMS, and \$6.000 million for Fire Services. These Programs represent the operators of the majority of the City's fleet. In addition, \$0.420 million for the continuation of the Green Fleet initiatives to lower emissions by taking advantage of innovative greener technology available has been recommended. This is aligned with the priorities outlined in the Mayor's Mandate for a "Greener City." Action to close out fuel sites that are not viable as identified in the fuel sites review will begin in 2007 at a cost of \$0.336 million.
- In addition, an estimate of \$0.500 million is recommended for each year 2008-2011, representing the incremental costs of replacing vehicles with "green technology" where appropriate and available for the type of vehicles due for replacement.
- Funding for the 5-Year Capital Plan reduces the current state of good repair backlog by approximately \$6.000 million annually. At the end of the 5 year time frame, backlog will be reduced by 77.9% or \$30.000 million.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Capital Budget for Fleet Services with a total project cost of \$30.757 million and a 2007 cash flow of \$82.932 million and future year commitments of \$7.600 million be approved. The 2007 Recommended Capital Budget consists of the following:
 - a) New Cash Flow Funding for:
 - i) 20 new sub-projects with a 2007 total project cost of \$30.757 million that requires cash flow of \$23.157 million in 2007 and a future year commitment of \$7.600 million in 2008;
 - ii) 1 previously approved sub-project with a 2007 cash flow of \$3.300 million;
 - iii) 14 sub-projects from previously approved projects with carry forward funding from 2005 and prior years requiring 2007 cash flow of \$18.466 million that requires Council to reaffirm its commitment; and
 - b) 2007 approved cash flow for 20 previously approved sub-projects with carry forward funding from 2006 into 2007 totalling \$38.009 million;
2. the 2008-2011 Capital Plan for Fleet Services totalling \$122.609 million in project commitments and estimates, comprised of \$36.189 million in 2008; \$29.039 million in 2009; \$28.922 million in 2010; and \$28.459 million in 2011, be approved; and
3. the Fleet Services 2007 Recommended Capital Budget be adjusted to agree with Programs' 2007 budgeted contributions to the Vehicles Reserves to reflect any changes recommended to the contributions from the other Programs' Operating Budgets during the 2007 Operating Budget process.

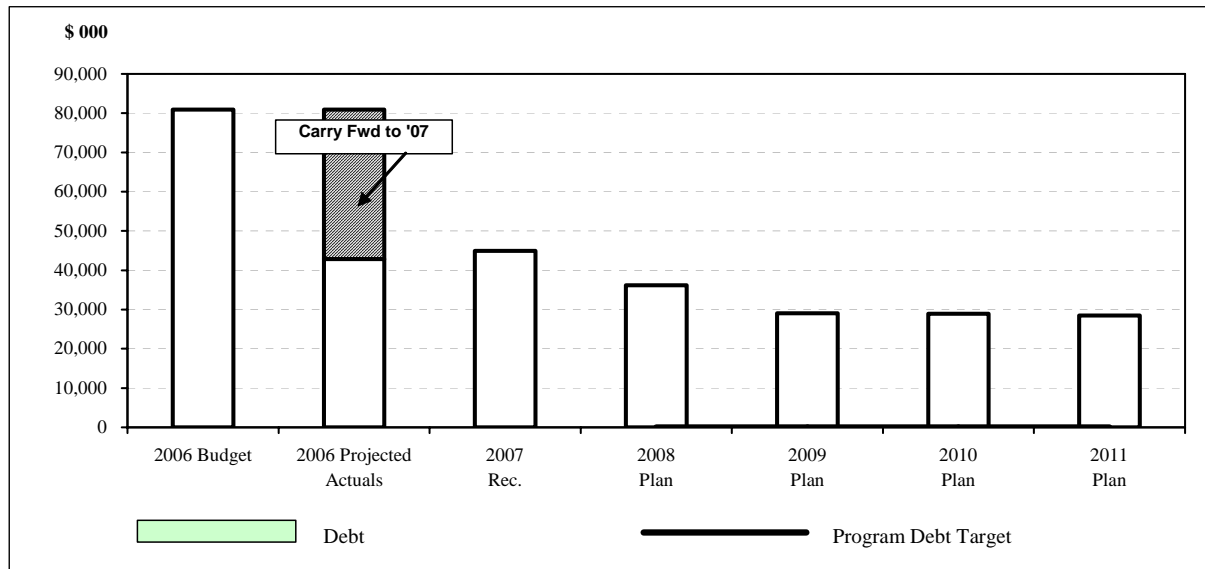
2006 Capital Variance Review

2006 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2006 Approved	Actuals as of Sept 30 (3rd Qtr Variance)		Projected Actuals at Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
80,915	17,245	21	31,892	39	49,023

Comments / Issues:

- At the end of the 3rd quarter, Fleet Services spent \$17.245 million of its 2006 approved cash flow budget of \$80.915 million. Fleet Services' projected year-end spending rate is 39.4% or \$31.892 million.
- Typically, the preparation of specifications and tenders occurs in the first half of the year, with the issuance of purchase orders occurring in the second half. This often results in the delivery of goods not taking place until the spring of the year following the year of budget approval. In addition to the process schedules, vehicle delivery is determined by the manufacturers' build out dates; heavy vehicles and specialized equipment take longer to be assembled and built, and these commonly will not be delivered by December 31, 2006. This is particularly true for Solid Waste, Transportation, Fire and EMS vehicles and specialized equipment needs.
- Fleet Services is reviewing the actual expenditures as at the end of December 31, 2006, and any adjustments to carry forward funding will be reported through to the Budget Committee during its review of the 2007 – 2011 Capital Plan.

5-Year Capital Plan (2007-2011)



	2006		5-Year Plan					
	Budget	Projected Actual	2007 Rec.	2008	2009	2010	2011	2007-2011
Gross Expenditures:								
Capital Budget & Future Year Commitments	80,915	42,906	44,923	7,600	0	0	0	52,523
New Plan Estimates			0	28,589	29,039	28,922	28,459	115,009
1-Year Carry Forward to 2007		38,069						
Total Gross Annual Expenditures & Plan	80,915	80,915	44,923	36,189	29,039	28,922	28,459	167,532
Program Debt Target			n/a	n/a	n/a	n/a	n/a	0
Financing:								
Recommended Debt								0
Other Financing Sources:								
Reserves/Reserve Funds	80,915		44,923	36,189	29,039	28,922	28,459	167,532
Development Charges								0
Federal								0
Provincial								0
Other Revenue								0
Total Financing	80,915		44,923	36,189	29,039	28,922	28,459	167,532
By Category:								
Health & Safety								
Legislative	670		670	500	500	500	500	2,670
SOG	80,245		43,417	35,689	28,539	28,422	27,959	164,026
Service Improvement			836					836
Growth Related								
Total By Category	80,915		44,923	36,189	29,039	28,922	28,459	167,532
Yearly SOGR Backlog Estimate (addressed)not addressed by current plan			(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(30,000)
Accumulated Backlog Estimate (end of year)		38500	32,500	26,500	20,500	14,500	8,500	8,500
Operating Impact on Program Costs			0	0	0	0	0	0
Debt Service Costs			0	0	0	0	0	0

* Note that the 1-Year Carry Forward reflects budget submission and as reflected in CAPTOR.

5-Year Capital Plan Overview

Overview

The 2007-2011 Capital Plan primarily addresses the need for timely replacement of vehicles and associated equipment. In addition, the Plan provides for the continuation of the Green Fleet initiative to lower emissions and save fuel by taking advantage of innovative greener technology, the closure of fuel sites and the Maintenance System Upgrade. The 5 Year Capital Plan is based on three key factors: expected life of the assets, ability to spend, and reducing backlog.

Mayor's Mandate

The 5-Year Capital Plan has a project that is aligned with the following priorities outlined in the Mayor's Mandate for a "Greener City".

- *Develop a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming. This action plan will explore ways that the City can cut emissions and encourage residents to do the same.*
- *Implement the remaining components of the City's smog plan and develop a new, aggressive clean air action plan that will reduce smog-causing pollutants by 20% by 2012.*

Toronto's first Green Fleet Transition Plan enters its third year with a \$0.420 million budget in 2007. Since 2004 the Green Fleet Program has acquired 60 "Green Vehicles" that are proving their effectiveness in significantly reducing carbon dioxide emissions. For 2007, the \$0.420 million budget will be used to top up the difference in price between a "standard" vehicle and a "green" vehicle. On average, the "green" vehicle costs nine thousand four hundred more. This will enable Fleet Services to target the replacement of 44 "standard" vehicles with "green vehicles." The 2008 - 2011 Capital Plan for the Green Fleet, contains budgets of \$0.500 million in each year. This is to fund the incremental costs associated with new technologies such as hybrids and newer, hydrogen-based platforms. In addition, the plan includes efficiency improvements such as right-sizing vehicles, reducing idling and the use of biofuels (ethanol, biodiesel). These technologies are highlighted each year at the Green Fleet Expo (GFX) which is organized by Hamilton and Toronto in co-operation with other orders of government and industry.

The Green Fleet Plan originated from a vision to move towards vehicles and equipment that leave fewer negative impacts on the environment. The Plan represents an effective means of reducing carbon emissions from the operation of the City's fleet and equipment. As the largest municipality in Ontario with the largest fleet operation, the City of Toronto has shown its commitment to making a better environment. The decision to implement the Green Fleet Plan sends a message to the automotive industry, other orders of government and the public that the City's fleet operations are serious about the need to improve the environment in a sustainable and affordable way.

Multi-Year Debt Affordability Target

The 2007-2011 Capital Plan is fully funded from the Vehicle Reserves and does not affect the City's debt level.

Capacity

The completion of previously approved projects is a priority for Fleet Services, and these projects form the basis of the 2007 Recommended Capital Budget. The spending rate for 2006 has been affected by the manufacturers' production schedules, and preparation of specifications and tenders. RFQs were completed and Purchase Orders issued in the second half of the year. Vehicle delivery is determined by the manufacturers' build out dates; heavy vehicles and specialized equipment used by Solid Waste, Transportation, Parks, Forestry and Recreation, Toronto Water and EMS, take longer to be assembled and built, and these commonly will not be delivered by year end.

To mitigate some of the factors that prolong projects, Fleet Services has recommended the following actions:

- Hire three specifications writers by end of January.
- Hire a Specifications Supervisor. (position should be filled by mid Feb).
- Start posting RFQs prior to budget approval; award when budget gets approved.
- Group similar vehicles and equipment on same RFQ to allow for additional units to be added.

It is believed that these actions will significantly improve the Program's capacity to complete projects on a more timely basis each year.

State of Project Readiness

Including all carry forwards, the 2007 Capital Budget is \$82.932 million. The future years are estimates based on the replacement values of the vehicles that will become due in that year. Vehicle replacement programs are cyclical in nature due to vehicle life cycles that vary. For consistency, Fleet services have established a criteria that vehicles that are older than eight years are identified for replacement and become part of the future year estimates. Units that are still active after the criteria of eight years or 150,000 kilometres have been reached become part of the backlog of unfunded replacements.

Although a unit may be part of the backlog list, it is not automatically given priority for replacement. Each Program has the discretion as to when a vehicle is replaced. This decision is guided by where equipment and vehicles are necessary for the provision of service delivery, and also by affordability issues and adjustments to service.

Emerging service priorities or future year service level changes will impact the future estimates. Programs also have the opportunity to replace vehicles that may still be within their life cycle, but have extremely high maintenance costs associated with continued operation.

Recommended Changes to the 5-Year Plan

City Council considered the 5-Year Capital Plan (2006-2010) at its meeting of July 25, 26 and 27, 2006 and endorsed the Plan in principle. The 2007 cash flow request in the 2006-2010 Plan was conservatively estimated, and is now updated with an increase of \$21.766 million for previously approved projects and a reduction of \$4.340 million for new projects as a result of City Programs' current assessments of their vehicles replacement requirements.

The 2008-2011 future years estimates have been amended to reflect more realistic delivery dates.

Backlog of Projects and Unmet Needs

The 2007-2011 Capital Plan is based on the replacement values of the vehicles that become due in that year. Vehicles that are older than eight years are identified for replacement and become part of the future year estimates. Units that are still active after the eight years or 150,000 kilometres have been reached become part of the backlog of unfunded replacement. The expected backlog at the end of 2006 is \$38.500 million. Approval of the 5-Year Capital Plan will reduce this backlog annually by \$6.000 million. By the end of the 5 year time frame, fleet backlog for City's Programs will be reduced by 77.9% to \$8.500 million.

Pre-approvals

The pre-approved cash flow as approved by City Council on December 5, and 6, 2006 for Fleet Services is \$58.738 million gross, \$0 debt. This includes \$53.163 million for previously approved projects, \$3.300 million in previously approved funding commitments for the replacement of Fire vehicles, and \$2.275 million for new projects. The new cash flow funding in the amount of \$2.275 million is for new Fleet replacements and represents 10% of the recommended 2007 cash flow of \$22.746 million.

Total 2007 Recommended Cash Flow & Future Year Commitments (\$000s)

	2005 & Prior Year Carry Forward	2007 Previously Approved Cash Flow Commitments	2007 New Cash Flow Recommended	2007 Total Cash Flow Recommended	2007 Debt Target	2006 Carry Forward	Total 2007 Cash Flow (Incl 2006 C/Fwd)	2008	2009	2010	2011	2012-2016	Total Cost
Expenditures													
Previously Approved	18,466	3,300		21,766		38,009	59,775						59,775
Change in Scope							0						0
New			23,157	23,157			23,157	7,600					30,757
New w/Future Year							0						0
Total Expenditure	18,466	3,300	23,157	44,923		38,009	82,932	7,600					90,532
Financing													
Debt													0
Subsidy (SCPI)													0
Prov. Subsidy/Grant													0
Development Charges													0
Other													0
Federal Grants													0
Reserves/Res Funds	18,466	3,300	23,157	44,923		38,009	82,932	7,600					90,532
Total Financing	18,466	3,300	23,157	44,923		38,009	82,932	7,600					90,532

Comments / Issues:

- The 2007 Recommended Capital Budget is \$82.932 million, and includes funding for 2006 projects carried forward into 2007 of \$38.009 million; carried forward funding for projects approved in 2005 and prior years of \$18.466 million, previously approved commitment funding of \$3.300 million for 2007, and new project funding of \$23.157 million.
- Approval of the 2007 Recommended Capital Budget will require a future year commitment of \$7.600 million for 2008.
- The Fleet Services' 2007 Capital Budget is fully funded from the Vehicles Reserves that is financed annually by way of Programs' operating contributions.

2007 Recommended Capital Budget

2007 Recommended Capital Budget versus Debt Target

The 2007 Recommended Capital Budget is fully funded from Reserves, and does not affect the debt level for the City.

Capacity /Readiness

In order to improve spending rates for 2007 and future years, Fleet Services have identified a number of efficiency measures, as outline on page 7, which are expected to mitigate some of the factors that prolong project delivery.

Program Incremental Operating Costs

There are no incremental impacts in 2007 or future years on the Program's Operating Budget attributed to the 2007 Recommended Capital Budget.

PART II: ISSUES FOR DISCUSSION

2007 Capital Budget Issues

Fuel Sites Closure

At its meeting of January 31-February 2, 2006, City Council adopted Administration Committee Report 1, Clause 12 “Corporate Fuel Site Review – Status Update” that recommended funds in the amount of \$0.336 million be provided in 2007 to permanently close eight fuel sites identified by Program staff.

Accordingly, Fleet Services has included \$0.336 million in 2007 for the purpose of closing the eight fuel sites funded from the Vehicle Reserves.

Fleet Services will continue to lead the fuel site review and report on its status to the General Government Committee in 2007, as part of their annual Future Plan Update.

5-Year Capital Plan Issues

Future Year Estimates

The future year amounts for the 2008-2011 Capital Plan are estimates based on the projected values of the vehicles that will become due for replacement in each year. Vehicles that are eight years old are identified for replacement and become part of that year’s estimates. Units that are still active after eight years or 150,000 kilometres have been reached become part of the backlog of unfunded replacement.

Although a unit may be part of the backlog list, it is not automatically given priority for replacement. Each Program has the discretion as to when a vehicle is replaced. This decision is guided by where vehicles and associated equipment are necessary for the provision of service delivery, and also by affordability issues and adjustments to service.

Emerging service priorities or future year service level changes will impact the future estimates. Programs also have the opportunity to replace vehicles that may still be within their useful life cycle, but have extremely high maintenance costs associated with continued operation.

Appendix 4

Reserve / Reserve Fund Review (\$000s)

Reserve / Reserve Fund Name	Project / SubProject Name and Number	Uncommitted balance as of September 30, 2006	Proposed Withdrawals				
			2007	2008	2009	2010	2011
Vehicle Reserves	Vehicle replacements	\$0	\$82,932	\$36,189	\$29,039	\$28,922	\$28,459
Total Reserve / Reserve Fund		\$0	\$82,932	\$36,189	\$29,039	\$28,922	\$28,459

Appendices 1-3 not available online.