

Analyst Briefing Notes

Budget Committee Review

(February 8, 2007)

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Contacts: Judy Broughton, Manager, Financial Planning
Tel: (416) 392-8393

Maria Djergovic, Senior Financial Planning Analyst
Tel: (416) 397-4558

February 1, 2007

PART I: CAPITAL PROGRAM**Executive Summary**

- The 2006 Approved Capital Budget of \$42.753 million was 45% spent as at September 30, 2006. Actual expenditures by year-end are anticipated to be \$37.072 million, or 87% of the 2006 Approved Capital Budget, resulting in projected 2006 cash flow funding of \$5.681 million being carried forward into 2007. This projected under expenditure is the result of unanticipated scheduling delays. The projected year-end spending rate for 2006 approved projects of 87% is in line with the 86% rate achieved in 2005.
- The 2007 Recommended Capital Budget; 2008-2011 Plan and 2012 to 2016 Estimates total \$309.723 million of which \$163.841 million is projected for the Program's 5-Year Capital Plan, requiring debt funding of \$149.862 million and cash flow of \$39.199 million in 2007, \$35.504 million in 2008, \$30.175 million in 2009, \$29.963 million in 2010 and \$29.000 million in 2011. The 5-Year Capital Plan meets the Program's debt targets for each of the 5 years.
- The 5-Year Capital Plan incorporates essential life cycle replacements and addresses existing State-of-Good-Repair (SOGR) backlog. The corporate facilities portfolio has an estimated \$167 million in essential backlog projects. Within 5 years, at the current funding level, Facilities and Real Estate will reduce this backlog by approximately \$71 million, or \$14 million on average annually. The backlog balance is expected to be eliminated by the end of 2018, subject to the approval of consistent funding levels and the results of future building condition assessments.
- In addition to addressing existing SOGR backlog, the 5-Year Capital Plan includes essential asset life cycle replacements at \$16 million per year.
- The 5-Year Capital Plan will fund a number of multi-year projects, including renewal of all external corporate signage, installation of an Uninterruptible Power Supply at Police Headquarters, environmental emergency remediation at various City locations, compilation of an inventory of moveable corporate assets etc., which will all be completed within the next 5 years.
- The 2007 Recommended Capital Budget including previously approved commitments requires new 2007 cash flow of \$35.518 million gross with debt funding of \$29.900 million. This cash flow combined with carry forward funding of \$5.681 million for 2006 projects brings the total 2007 Recommended Capital Budget to \$39.199 million gross, of which \$34.138 million is funded by debt.
- 41% of the 2007 recommended cash flow is allocated to Health and Safety projects at \$13.558 million; 22% to Legislative or contractually required projects at \$7.397 million; 16% to State-of-Good-Repair projects at \$5.383 million and 21% to Service Improvement projects at \$7.180 million.

- The 2007 recommended cash flow will fund approximately 150 projects involving mechanical, electrical, structural, environmental and other capital maintenance work on various corporate facilities across the City. By the end of 2007, about 80 projects will be completed, reducing the current State-of-Good Repair project backlog by \$9 million.
- The Program is working closely with the City Manager's Office on actions recommended by the Auditor General in his report concerning Facilities and Real Estate maintenance and administrative controls. As a result, a set of principles will be developed to guide the corporate facility maintenance and management activities.
- The 2007 Recommended Capital Budget will fund projects that will ensure adherence to the latest building standards and ecologically friendly initiatives, such as the Green Roof project and the Deep Lake Water Cooling (DLWC) project at Old City Hall which will advance one of the Mayor's Mandate key initiatives – "A Greener City". The funds to renovate office space for a new Lobbyist Registrar's Office are also included.
- In order to respond to high demand as a result of the City's new governance structure and to consolidate Mayor's Office space for meetings at City Hall, the 2007 Recommended Capital Budget includes funding for the renovations of the 2nd Floor at City Hall. As a result, two new Committee Rooms will be added.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Capital Budget for Facilities and Real Estate with a total project cost of \$46.672 million and a 2007 cash flow of \$39.199 million and future year commitments of \$43.639 million be approved. The 2007 Recommended Capital Budget consists of the following:
 - a) New cash flow funding for:
 - i) 102 new sub-projects with a 2007 total project costs of \$46.672 million that requires cash flow of \$22.163 million in 2007 and a future year commitment of \$18.376 million in 2008, \$2.326 million in 2009, \$1.738 million in 2010 and \$1.489 million in 2011;
 - ii) 47 previously approved sub-projects with a 2007 cash flow of \$11.355 and a future year commitment of \$7.416 million in 2008, \$6.627 million in 2009, \$3.594 million in 2010 and \$2.073 million in 2011; and
 - b) 2007 approved cash flow for 35 previously approved sub-projects with carry forward funding from 2006 into 2007 totalling \$5.681 million;
2. new debt service costs of \$0.590 million in 2007 and incremental costs of \$2.586 million in 2008, \$1.618 million in 2009, \$0.308 million in 2010 and \$0.236 million in 2011, resulting from the approval of the 2007 Recommended Capital Budget, be approved for inclusion in the 2007 and future year operating budgets; and
3. the 2008-2011 Capital Plan for Facilities and Real Estate totalling \$124.642 million in project commitments and estimates comprised of \$35.504 million in 2008, \$30.175 million in 2009, \$29.963 million in 2010 and 29.000 million in 2011, be approved.

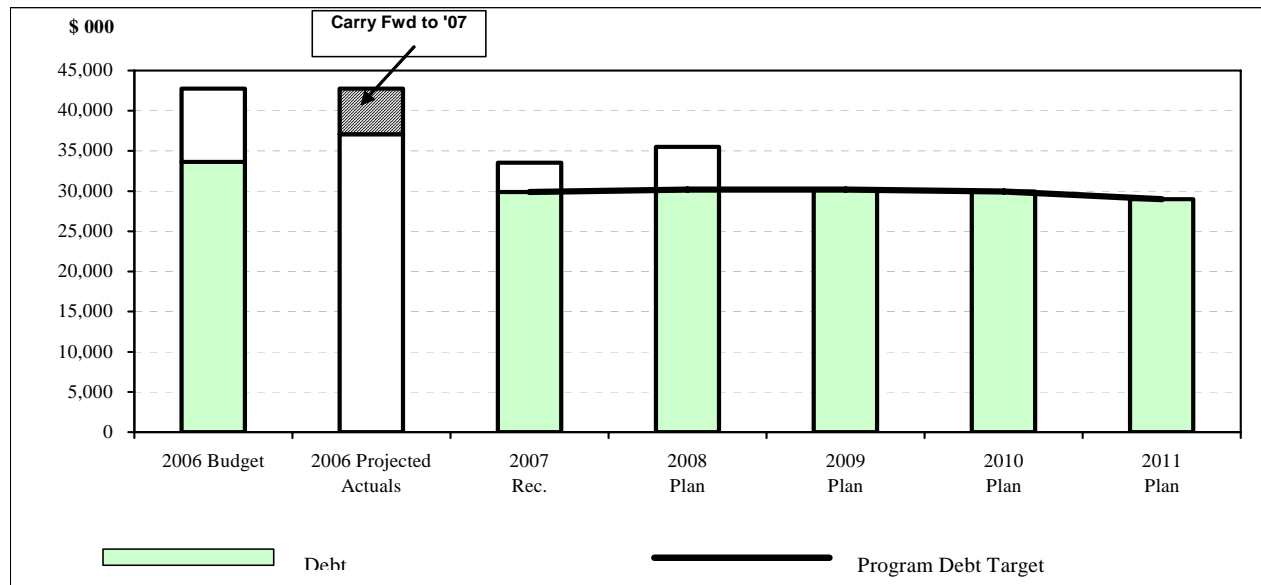
2006 Capital Variance Review

2006 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2006 Approved	Actuals as of September 30 (3rd Qtr Variance)		Projected Actuals at Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
42,753	19,448	45	40,010	94	2,742

Comments / Issues:

- At the end of the 3rd quarter, Facilities and Real Estate spent approximately \$19.4 million or 45% of the 2006 Approved Capital Budget of \$42.7 million. This rate of spending is consistent with work schedules where most of the tendering and contract award activities occur at the beginning of the year, with actual construction taking place in the third and fourth quarters.
- Facilities and Real Estate's projected year-end spending rate for 2006 approved projects is 94% or \$40.0 million as per its September 30, 2006 Variance Report.
- The carry forward funding included in the 2007 Recommended Capital Budget is \$5.681 million or 13% of the 2006 Approved Capital Budget and it is higher than the projected under spending in the 3rd quarter variance report (\$2.742 million). This variance is the result of unanticipated scheduling delays. Should any adjustments to carry forward funding be required, these will be reported through to Budget Committee during its review of the 2007 Recommended Capital Budget.
- The projected year-end spending rate for 2006 projects, based on actual expenditures by year-end, is 87% and it is consistent with the 2005 year spending rate of 86%.

5-Year Capital Plan (2007-2011)



	5-Year Plan							
	2006		2007 Rec.	2008	2009	2010	2011	2007-2011
	Budget	Projected Actual						
Gross Expenditures:								
Capital Budget & Future Year Commitments	42,753	37,072	33,518	25,792	8,953	5,332	3,562	77,157
New Plan Estimates				9,712	21,222	24,631	25,438	81,003
1-Year Carry Forward to 2007		5,681						
Total Gross Annual Expenditures & Plan	42,753	42,753	33,518	35,504	30,175	29,963	29,000	158,160
Program Debt Target	33,639		29,900	30,175	30,175	29,963	29,000	149,213
Financing:								
Recommended Debt	33,639		29,900	30,175	30,175	29,963	29,000	149,213
Other Financing Sources:								
Reserves/Reserve Funds								
Development Charges	50		696					696
Federal								
Provincial								
Other Revenue	9,064		2,922	5,329				8,251
Total Financing	42,753		33,518	35,504	30,175	29,963	29,000	158,160
By Category:								
Health & Safety	26,878		13,558	14,721	9,906	11,030	15,435	64,650
Legislative	8,326		7,397	5,773	9,863	10,337	6,866	40,236
SOGR	2,652		5,383	6,984	6,469	6,197	5,682	30,715
Service Improvement	4,898		7,180	8,026	3,937	2,399	1,017	22,559
Growth Related								
Total By Category	42,753		33,518	35,504	30,175	29,963	29,000	158,160
Yearly SOGR Backlog Estimate (not addressed by current plan)								0
Accumulated Backlog Estimate (end of year)		166,928	157,664	142,747	130,814	115,621	95,893	95,893
Operating Impact on Program Costs								0
Debt Service Costs			897	4,194	4,225	4,218	4,166	17,700

* Note that the 1-Year Carry Forward reflects the preliminary year-end estimate.

5-Year Capital Plan Overview

Overview

Facilities and Real Estate is responsible for the maintenance of 267 buildings identified as corporate facilities, valued at approximately \$2.18 billion. The main objective of the 5-Year Capital Plan is to ensure that all corporate facilities are maintained in a state of good repair and to ensure that the facilities provide a safe and functional environment for all users.

The 5-Year Capital Plan is based on condition assessments of all facilities within this portfolio of assets. By the end of the second quarter of 2007, all condition assessments of corporate facilities will be completed. The 5-Year Capital Plan provides funding for essential life cycle replacements and also addresses existing state-of-good repair backlog.

Mayor's Mandate

- *Develop a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming*

Facilities and Real Estate, through the Energy Efficiency Office, coordinate energy efficiency efforts across the City and assists other Programs' capital projects to enable participation in various provincial and federal initiatives concerning renewable energy, clean energy generation and energy conservation and demand projects. This is aligned with an overall objective of lowering energy consumption rates and reducing greenhouse emissions.

- *Implement the recently approved Toronto Green Building Standard to ensure ecologically friendly buildings*

The 2007 Recommended Capital Budget includes funding for the green roof initiative (\$1.0 million) and the conversion of existing refrigerant chillers to Deep Lake Water Cooling (DLWC) technology at Old City Hall (\$3.3 million), as well as a number of other projects concerning the retrofits of corporate buildings across the City, enabling the City to lead the way by ensuring that its own facilities meet the latest building standards and ecologically friendly initiatives.

- *Establish a mandatory lobbyist registry in January 2007*

Funds to renovate office space for a new Lobbyist Registrar's Office (\$0.3 million) are also included in the 2007 Recommended Capital Budget.

Multi Year Debt Affordability Target

The 2007-2011 Capital Plan has met the Council approved debt affordability targets for each of the five years. This has been achieved by deferring projects into future years and maximizing available funding sources. It should be noted that the 2007 debt target for Facilities and Real Estate was lowered by \$0.275 million, which was transferred to the Nathan Phillips Square Program as approved by Council at its meeting of September 25, 26 and 27, 2006.

The 2007-2011 Recommended Capital Plan includes changes to future year cash flow commitments previously approved by Council, due to the acceleration of specific projects from 2008 and 2009 to 2007, and the deferral of cash flow of a number of previously approved projects to 2007 and beyond based on revised spending. All changes have been accommodated within the approved debt targets established for this Program.

Capacity

Facilities and Real Estate historically has high spending rates. The Program is ready to proceed with the projects included in the 2007 Recommended Capital Budget.

State of Project Readiness

Projects included in the 5 Year Capital Plan are ready to proceed as project costs and scope are validated on an on-going basis and projects are prioritized based on audits completed to date.

Although condition audits have been completed for the majority of buildings, the 5-Year Capital Plan is subject to on-going validation and refinement. Therefore, projects are regularly reviewed and reprioritized and an updated list of backlog projects maintained. For that reason, a number of projects anticipated to be implemented in 2007 at the time that the 2006-2010 Capital Plan was considered have been deferred to future years and new projects included in the recommended 2007-2011 Capital Plan.

The 2007-2011 Capital Plan is comprised of 86% SOGR projects (including Health and Safety and Legislative projects) and 14% Service Improvement projects.

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. Highlights of the changes from the 2006-2010 Capital Plan considered in July and the 2007-2011 Recommended Capital Budget are summarized below:

- The 2007-2011 Recommended Capital Plan reflects a number of cash flow adjustments to the 2006 capital projects, which were subsequently approved by Council. For example, a project surplus has been identified for the 843 Eastern Avenue mechanical/electrical project due to a decision to provide temporary shoring instead of full slab replacements. That funding was reallocated to several existing projects to address previously unidentified health and safety concerns and to carry out other state of good repair projects in a timely manner.
- In addition, all projects were reviewed and reprioritized, which resulted in an updated list of projects and schedules, which are now included in the recommended 2008-2011 Capital Plan. A number of previously approved projects with approved cash flow of approximately \$0.750 million in 2007 and \$0.460 million in 2008 were further deferred to 2009 and beyond.

State-of-Good-Repair Backlog and Unmet Need

The 2006 year-end state-of-good repair backlog is valued at \$167 million. Within 5 years, at the current funding level, Facilities and Real Estate will reduce this backlog by approximately \$71 million, or \$14 million on average annually. The backlog balance is expected to be eliminated by the end of 2018, subject to the approval of consistent funding levels and the results of future building condition assessments.

In addition to addressing existing backlog, the 5-Year Capital Plan includes essential life cycle replacements at an average amount of \$16 million per year over the 2007-2011 period. This represents less than 1% of the total asset value and it falls short of the industry standard for capital maintenance of 2%-4% of the total asset value per year. Alternatively, if Facilities and Real Estate were to comply with the minimum industry standard for capital maintenance of 2%, the 5-Year Capital Plan requirements would not be sufficient to address any of the existing backlog.

Operating Impact of the 5-Year Capital Plan

The Program does not anticipate any incremental operating budget impacts arising from the approval of the 2007 Recommended Capital Budget.

Pre-approvals

At its meeting of September 25, 26 and 27, 2006 City Council adopted Policy and Finance Report 7, Clause 77, containing recommendations of the Budget Advisory Committee concerning the report from the Deputy City Manager and Chief Financial Officer, entitled 'Pre-Approval of 2007 Capital Projects Commitment and Spending'. The report was subsequently considered and adopted by City Council at its meeting of December 5 and 6, 2006.

The pre- approved cash flow for Facilities and Real Estate of \$4.136 million gross consists of \$0.377 million in carry forward funding for 2006 projects, \$2.076 million for previously approved projects and \$1.683 million for new projects.

Cashflow was pre-approved for 20 previously approved projects, including 2 carry forward projects, with on-going mechanical and electrical work, re-roofing and renovation projects. Pre-approval was required to continue work during the first three months of 2007.

Thirteen new projects, requiring 2007 commitments of \$6.286 million and actual spending of \$1.683 million for the first quarter, were also approved for pre-approval of funds. These are state-of-good repair projects to address health and safety issues such as removal of asbestos ceiling tiles at 23 Grange Road (University Settlement House Recreation Centre and Indoor Pool), replacement of fans at Scarborough Civic Centre and other environmental remediation and security projects at various locations.

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		11,355		11,355		5,681	17,036	7,416	6,627	3,594	2,073	3,129	39,875
Change in Scope				0			0						0
New			22,163	22,163			22,163	18,376	2,326	1,738	1,489	580	46,672
New w/Future Year				0									0
Total Expenditure	0	11,355	22,163	33,518		5,681	39,199	25,792	8,953	5,332	3,562	3,709	86,547
Financing													
Debt		10,230	19,670	29,900	29,900	4,238	34,138	20,463	8,953	5,332	3,562	3,709	76,157
Subsidy (SCPI)													
Prov. Subsidy/Grant													
Development Charges		696		696			696						696
Unapplied Debt Financing			2,300	2,300			2,300	4,200					6,500
Other		429	193	622		1,443	2,065	1,129					3,194
Federal Grants													
Reserves/Res Funds													
Total Financing	0	11,355	22,163	33,518		5,681	39,199	25,792	8,953	5,332	3,562	3,709	86,547

Comments / Issues:

- The 2007 Recommended Capital Budget is \$39.199 million gross, including \$11.355 million in funding for previously approved commitments, \$22.163 million for new/change in scope projects and \$5.681 million to fund projects carried forward from 2006 to 2007.
- Approval of the 2007 Recommended Capital Budget will result in future year commitments of \$18.376 million for 2008, \$2.326 million for 2009, \$1.738 million for 2010 and \$1.489 million in 2011. Of this total the Green Roof Initiative represents \$0.500 million in 2007 and \$0.500 million in 2008. The conversion of existing refrigerant chillers to Deep Lake Water Cooling (DLWC) technology at Old City Hall accounts for \$0.545 million in each year over the 2007-2010 period and a further \$0.510 million in 2011 and \$0.580 million in 2012. Installation of an Uninterruptible Power Supply (UPS) at Police Headquarters accounts for \$0.437 million in 2007, \$0.900 million in 2008, \$0.247 million in 2009, \$0.151 million in 2010 and \$0.234 million in 2011.

2007 Recommended Capital Budget**2007 Recommended Capital Budget versus Debt Target**

The 2007 Recommended Capital Budget requires \$29.900 million debt and meets the 2007 debt target established for this Program.

Capacity /Readiness

Projects included in the 2007 Recommended Budget are ready to proceed as project costs and scope are validated on an on-going basis and projects are prioritized based on audits completed to date.

Operating Budget Impact**Incremental Operating Impact Summary**

Incremental Operating Budget Impact	2007	2008	2009	2010	2011
Program Costs (net) (\$000s)					
Debt Service Charges (\$000s)	590	2,586	1,618	308	236
Approved Positions					

Program Incremental Operating Impacts

The Program does not anticipate any incremental operating budget impacts arising from the approval of the 2007 Recommended Capital Budget.

PART II: ISSUES FOR DISCUSSION**2007 Capital Budget Issues****State of Project Readiness**

The 2007 Recommended Capital Budget includes changes to future year cash flow commitments previously approved by Council. The Program advises that reallocation of cash flow was required to accommodate its 2007 and future year debt targets. The changes are based on revised spending and are mainly due to specific projects accelerated from 2007 to 2006, as well as the deferral of cash flow of a number of previously approved projects to 2008 and beyond.

The Program is ready to proceed with its 2007 capital projects. All projects are based on building condition audits completed to date. In order to improve its spending rate and reduce the number of required cash flow adjustments, the 2007-2011 Recommended Capital Plan includes an alternate approach to capital planning and budgeting. There are approximately fifty new multi-year projects with the first year cash flow that includes only design work (estimated at 8%-10% of the total) and the remainder of funds in future year(s). This approach would allow for construction work to proceed without any delays in the following year.

5-Year Capital Plan Issues**State-of-Good-Repair and Life Cycle Replacements**

The 2007-2011 Recommended Capital Plan has met the Council approved debt affordability targets for each of the five years. The 5-Year Capital Plan is based on condition assessments of corporate facilities completed to date. By the end of the second quarter of 2007, all condition assessments of corporate facilities will be completed and a new five year cycle of technical audits and capital project validations will be initiated.

The 5-Year Capital Plan includes life cycle replacements (an average amount of \$16 million per year) and also addresses existing state of good repair backlog (an average amount of \$14 million per year).

The current backlog of essential projects is \$167 million. With currently projected funding levels, the backlog will be eliminated by the end of 2018, subject to the results of future building condition assessments. All projects are regularly reviewed and reprioritized and an updated list of backlog projects maintained.

At its meeting of December 14 and 16, 2005, Council adopted the recommendations of the Auditor General's Report concerning the results of a review of Maintenance and Administrative Controls – Facilities and Real Estate. The Program advises that is working closely with the City Manager's Office on the recommended actions, including:

- documenting the resources, roles, responsibilities and business processes of all existing organizational and operational models for facility maintenance and management;

- identifying the benefits and issues of concern associated with the existing model;
- establishing set of principles, to guide the consideration on how to corporately organize the facility maintenance and management activities; and
- identifying, within the context of those principles, the need to address identified issues of concern, the preferred organizational and operational model and an implementation plan to move to a preferred model.

In 2006, state of good repair maintenance budgets required by Toronto Social Services and Toronto Public Health were transferred to Facilities and Real Estate as a pilot project.

New Projects

A number of new multi-year projects have been included in the recommended 2007-2011 Plan:

- The Green Roof Initiative to identify City-owned candidate buildings, provide design and install green roofs, in the amount of \$1.0 million (\$0.500 million in 2007 and \$0.500 million in 2008)
- The conversion of existing refrigerant chillers to Deep Lake Water Cooling (DLWC) technology at Old City Hall accounts for \$3.270 million (\$0.545 million in each year over the 2007-2010 period and further \$0.510 million in 2011 and \$0.580 million in 2012)
- Installation of an Uninterruptible Power Supply (UPS) at Police Headquarters in the amount of \$2.059 million (\$0.437 million in 2007, \$0.900 million in 2008, \$0.247 million in 2009, \$0.151 million in 2010 and \$0.234 million in 2011)
- Renewal of external signage of corporate facilities according to the Council approved Corporate Identity Program in the amount of \$1.216 million over 5 years (\$0.091 million in 2007, \$0.390 million in 2008 and \$0.245 million in each year of the three remaining three year period)
- Environmental emergency remediation at various City locations at a cost of \$1.250 million over 5 years (\$0.250 million in each year)
- The moveable asset audit project to compile an inventory of moveable assets in corporate facilities with the total commitment of \$1.250 million and cash flow of \$0.250 million in each year.
- 2nd Floor Renovations in the amount of \$6.200 million (\$2.000 million in 2007 and \$4.200 million in 2008) – two new Committee Rooms will be added to respond to high demand as a result of the City's new governance structure and to consolidate Mayor's Office space for meetings at City Hall.

Appendices not available online.