Analyst Briefing Notes

Budget Committee

(February 8, 2007)

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PART I: CAPITAL PROGRAM

Executive Summary

- The 2006 Approved Capital Budget of $7.2 million was 68% spent as of September 30th. Preliminary year-end actual expenditures are $5.0 million, or 69% of budget. Actual 2006 expenditures include $4.4 million for the State of Good Repair (SOGR) and Health and Safety HFA Maintenance Projects, with the remaining $0.6 million to complete the Site Redevelopment Project. The unspent 2006 funding that will be carried forward into 2007 is $1.8 million for the State of Good Repair (SOGR) and Health and Safety HFA Maintenance Projects. The remaining $0.4 million for the Site Redevelopment Project will not be required.

- The Recommended 5 - Year Capital Plan totals $43.4 million with 2007 cash flow of $10.8 million; $8.4 million in 2008; $6.6 million in 2009; $8.8 million in 2010; and $8.8 million in 2011. A total of $44.0 million is also forecast for the 2011-2015 period. The 5-Year Capital Plan meets the debt target in each year of the Plan.

- The Recommended 5-Year Capital Plan is comprised of mechanical, electrical and building upgrades to the City's ten homes. Planned expenditures include the following upgrades: bathroom fixtures, ventilation systems, HVAC and heating plant, nurse-call systems, fire alarm/ suppression systems, flooring, windows and doors, plumbing and elevator, roofing repairs/ replacements and various building structural enhancements.

- The 5-year cash flow includes spending on State of Good Repair projects totalling of $9.3 million that will reduce the SOGR backlog from $11.605 million in 2006 to $2.3 million by 2011.

- The Recommended 5-Year Capital Budget for HFA averages $8.68 million per year, an average increase of $4.049 million from previous years. The Capital Maintenance Plan is based on the building condition assessment of the structural and mechanical systems in the homes, recently completed by Paradigm Engineering Group Inc.

- The 2007 Recommended Capital Budget requires new cash flow of $9.0 million, with $1.4 million funded from debt and $7.6 million from the HFA Capital Reserve Fund. This cash flow, combined with the 2006 carry forward funding of $1.8 million into 2007 (funded from the HFA Capital Reserve Fund), brings the total 2007 Recommended Capital Budget to $10.8 million. with $9.4 million funded from the HFA Capital Reserve Fund and $1.4 million funded from debt.

- No future year commitments are required for the approval of the 2007 Recommended Capital Budget, as the maintenance plan is comprised of discrete projects that will be completed within the one-year period.

- 69% of the 2007 Recommended Capital Budget is allocated to Health and Safety at $6.2 million and 31% to State of Good Repair at $2.8 million.

Recommendations

The City Manager and the Chief Financial Officer recommend that:

1. the 2007 Recommended Capital Budget for the Homes for the Aged with a total project cost of $9.0 million and a 2007 cash flow of $10.8 million with no future year commitments be approved. The 2007 Recommended Capital Budget consists of the following:

   (a) New cash flow funding for 2 new sub-projects, with a 2007 total project cost of $9.0 million that requires cash flow of $9.0 million in 2007, with no future year commitments; and

   (b) 2007 approved cash flow for two previously approved sub-projects with carry forward funding from 2006 into 2007 totalling $1.8 million;

2. new debt service costs of $0.042 million in 2007 and incremental costs of $0.154 million in 2008, 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 Homes for the Aged totalling $32.6 million in project commitments and estimates, comprised of $8.4 million in 2008; $6.6 million in 2009; $8.8 million in 2010; and $8.8 million in 2011, be approved.

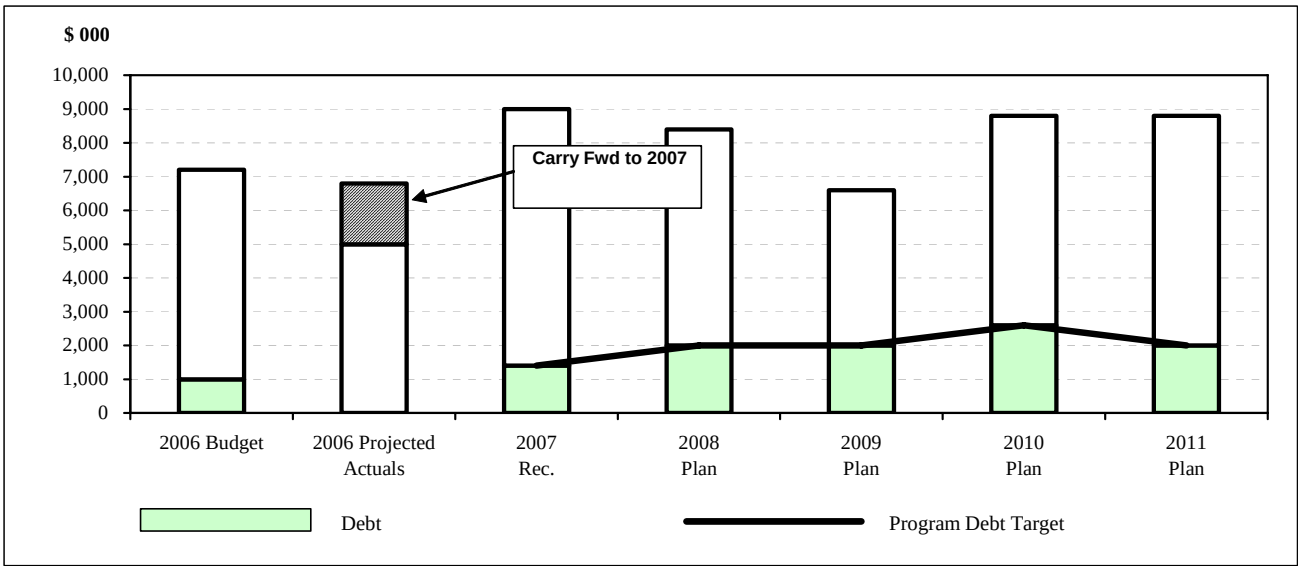
2006 Capital Variance Review

2006 Budget to Actuals Comparison - Total Gross Expenditures ($000s)					
2006 Approved	Actuals as of Septrmber 30 (3nd Qtr Variance)		Preliminary Actuals at Year End		Balance
$	$	% Spent	$	% Spent	$ Unspent
7,200	4,900	68	5,000	69	2,200

Comments / Issues:

Homes for the Aged‘s (HFA) 2006 Approved Capital Budget of $7.2 million was 68%, or $4.9 million spent as of September 30th, 2006. Actual expenditures by year-end are anticipated to be $5.0 million, or 69% of the 2006 Approved Capital Budget, as compared to the 100% reported in the 3’rd Quarter Capital Variance Report. The Program has spent $4.4 million of the $6.2 million approved budget for the Capital Maintenance Project, and $0.6 million of the $1.0 million approved for the Site Redevelopment Project. The under expenditure for the capital maintenance project of $1.8 million will be carried forward from 2006 into 2007, so that the Program can complete its planned 2006 Health and Safety and State of Good Repair capital maintenance upgrades. The under expenditure for the Site Redevelopment Project of $0.4 million will not be carried forward from 2006 to 2007, as the project has been completed.

5-Year Capital Plan (2007-2011)



	2006		5-Year Plan					
	Budget	Preliminary Actual	2007 Rec.	2008	2009	2010	2011	2007-2011
Gross Expenditures:								
Capital Budget & Future Year Commitments	7,200	5,000	9,000					9,000
New Plan Estimates				8,400	6,600	8,800	8,800	32,600
1-Year Carry Forward to 2007		1,800 →						
Total Gross Annual Expenditures & Plan	**7,200**	**6,800**	**9,000**	**8,400**	**6,600**	**8,800**	**8,800**	**41,600**
Program Debt Target	**0**		**1,400**	**2,000**	**2,000**	**2,600**	**2,000**	**10,000**
Financing:								
Recommended Debt	1,000		1,400	2,000	2,000	2,600	2,000	10,000
Other Financing Sources:								
Reserves/Reserve Funds	6,200		7,600	6,400	4,600	6,200	6,800	31,600
Development Charges								
Federal								
Provincial								
Other Revenue								
Total Financing	**7,200**		**9,000**	**8,400**	**6,600**	**8,800**	**8,800**	**41,600**
By Category:								
Health & Safety	2,000		6,200	7,000	5,300	6,900	6,900	32,300
Legislative	1,000							
SOGR	4,200		2,800	1,400	1,300	1,900	1,900	9,300
Service Improvement								
Growth Related								
Total By Category	**7,200**		**9,000**	**8,400**	**6,600**	**8,800**	**8,800**	**41,600**
Yearly SOGR Backlog Estimate (not addressed by current plan)								
Accumulated Backlog Estimate (end of year)		11,605	8,805	7,405	6,105	4,205	2,305	2,305
Operating Impact on Program Costs								
Debt Service Costs			42	214	280	298	346	1,180

5-Year Capital Plan Overview

Overview

The Recommended 5-Year Capital Plan totals $43.4 million, with 2007 cash flow of $10.8 million; $8.4 million in 2008; $6.6 million in 2009; $8.8 million in 2010; and $8.8 million in 2011.

- The Recommended 5-Year Capital Plan requires $43.4 million for ongoing capital maintenance for the Division's ten homes, with $33.1 million for Health and Safety Maintenance and $10.3 million for State of Good Repair. Cash flow for years 2007 through 2011 averages $8.68 million per year. The 5-Year Capital Plan is funded through draws of $33.4 million from the HFA Capital Reserve Fund, and $10.0 million from debt.
- A comprehensive building condition assessment was undertaken by HFA in 2005 and completed in the spring of 2006. The assessment, prepared by Paradigm Engineering Group Inc. has identified a backlog of projects of $11.6 million and a requirement to budget $31.8 million over the next five years for priority Health and Safety and State of Good Repair projects. Since the assessment was completed, HFA has identified additional requirements of $2.0 million for HVAC systems and plumbing infrastructure upgrades.
- The Program has used the building condition assessment as the basis for determining its State of Good Repair Backlog, estimated to be $11.6 million at the end of 2006. By 2011, the backlog will be reduced to $2.305 million, as the Plan will address the $9.3 million of the accumulated backlog.
- The following table summarizes the spending priorities of the Recommended 5-Year Capital Plan:

Recommended 5-Year Capital Plan	$000s	
Mechanical Upgrades		**19,099**
Bathroom Fixtures	5,513	
Ventilation System	4,627	
HVAC System Upgrades	3,991	
Heating Plant Upgrades	2,624	
Laundry/ Kitchen Equipment	2,344	
Electrical Upgrades		**7,183**
Nurse Call System	2,582	
Fire Alarm/ Supression System	2,001	
Telephone System	1,735	
Electrical Systems	865	
Building Upgrades		**15,318**
Flooring	3,263	
Windows/ Doors	3,170	
Paving & Landscaping	2,393	
Plumbing Infrastructure	2,172	
Structural - Other	1,681	
Elevator Upgrades	1,534	
Roofing	1,105	
Total		**41,600**

- Since 2001, a combination of debt and draws from the HFA Capital Reserve Fund has funded the Program's Maintenance Plan, with debt funding being as high as 60% of the annual maintenance plan. In years 2004 through 2006, the HFA Capital Reserve Fund was the sole source of funding for the HFA Maintenance Program. The 5-Year Capital Plan is funded 77% from the HFA Capital Reserve Fund and 23% from debt. Planned funding for the HFA Capital Reserve Fund is uncertain beyond 2011, but it is anticipated that additional Provincial funding will be available.

Debt Affordability

The 2007-2011 Capital Plan meets the Council debt target for each of the five years. This has been achieved by maximizing draws from the HFA Capital Reserve Fund to fund the cash flow requirements for the Recommended 5-Year Capital Plan.

Capacity

As noted in the table below, spending for the HFA Maintenance Program has averaged $2.892 million from 2002 through 2006, while the budget for the same period has averaged $4.651 million. The Recommended 5-Year Capital Maintenance Plan averages $8.68 million per year, an increase of $4.029 million per year from the past five years' budget average.

Year	HFA Capital Maintenance Budget (1) ($000s)	Actuals (2) ($000s)	(Over)/ Under Budget ($000s)	% Spent
2002	3,300	3,001	299	91
2003	3,800	2,346	1,454	62
2004	4,955	2,277	2,678	46
2005	5,000	2,428	2,572	49
2006	6,200	4,406	1,794	71
Five year budget/ actual average 2002 - 2006	**4,651**	**2,892**	**1,759**	**64**
2007	10,800			
2008	8,400			
2009	6,600			
2010	8,800			
2011	8,800			

2007 - 2011 budget $8,680 average

(1) including prior year carry forward funding

(2) 2006: Preliminary actuals

From 2001 through 2005, the Program's spending priorities were split between undertaking the reconstruction / renovation of Wesburn Manor and True Davison Acres, two homes that were classified as 'D' facilities by the Ministry of Health and Long-Term Care (D ratings receive a rebuild/ renovate mandate), and maintaining the remaining eight homes. The Wesburn Manor renovation was completed in 2004 and the True Davison Acres renovation was completed in 2005, with total cost of $44.848 million.

With the focus on these major renovation projects, the remainder of the maintenance budget was under spent. No doubt interruptions caused by the SARS outbreak in 2004 and the respiratory outbreaks in

2005 contributed to the low spending levels of 46% in 2004 and of 49% in 2005 of the Capital Maintenance Budget.

In 2006, with the completion of the reconstruction of Wesburn Manor and True Davison Acres and after hiring a Capital Project Manager to co-ordinate the delivery of the maintenance-plan, a spending rate of 71% has been achieved for the State of Good Repair and Health and Safety Maintenance Plan.

The Program is using the comprehensive building condition assessment compiled in 2005/ 06 by Paradigm Engineering Group Inc., as the basis of establishing project priorities. HFA indicates that the Recommended 5-Year Capital Plan is based on realistic procurement processes and timelines.

Recommended Changes to the 5-Year Plan

City Council considered the 5-Year Plan (2006-2010) at its meeting of July 25, 26 and 27, 2006. The plan was endorsed in principle.

The Program has made the following adjustments to 2007:

- Increased the Health and Safety Project by a total $1.0 million, comprised of increases of $2.0 million for HVAC systems and plumbing infrastructure upgrades, offset by reductions of $0.55 million in exterior building upgrades (window and door replacements) and $0.45 million in elevator/ laundry, kitchen upgrades; the additional $1.0 million requirement in 2007 will be funded from the HFA Capital Reserve Fund.

- Projected additional Provincial subsidy to sustain the HFA Capital Reserve Fund, with $1.65 million in Structural Compliance Premiums

For 2008 through 2011, the Program has made the following changes:

- Deferred certain repair / upgrades in the Health and Safety Project to attain debt level targets; and

- Projected additional Provincial subsidy to sustain the HFA Capital Reserve Fund, with $6.6 million in Structural Compliance Premiums, and an additional $4.15 million in Other Provincial Capital Subsidies, with the additional MOHLTC funding assumed between 2008 through 2011.

State of Good Repair Backlog and Unmet Needs

A comprehensive building condition assessment, as completed by Paradigm Engineering Group Inc. in the spring of 2006, has identified a backlog of SOGR maintenance of $11.6 million for the Program's 10 homes, which will be reduced to $2.305 million by 2011. The Recommended 5-Year Capital Plan includes SOGR maintenance expenditures totalling $9.3 million.

The Province is currently developing a capital renewal strategy for Long-Term Care facilities, which will likely define Health and Safety and State of Good Repair standards in the future.

While the average age of the homes would indicate that over 60% of the homes are close to the end of their life-cycle, all but three of the facilities have undergone major renovations.

Operating Impact of the 5-Year Capital Plan

While there are no incremental operating costs/savings identified with the Recommended 5-Year Capital Plan for HFA, savings that may materialize from increased building efficiencies, such as energy savings through window replacements, and HVAC and heating plant upgrades, will be included in the future years' operating budgets.

Pre-approvals

City Council, at its meeting of December 5 and 6, 2006 approved the report from the Deputy City Manager and Chief Financial Officer, entitled 'Pre-Approval of 2007 Capital Projects Commitment and Spending.'

The recommended pre-approval spending for two new projects is $1.9 million, comprised of $1.0 million for 2007 commitments and cash flow for Health and Safety Capital Maintenance; and $0.9 million for 2007 commitments and cash flow for State of Good Repair Capital Maintenance. These projects are funded from the Homes for the Aged Capital Reserve Fund. These projects are proceeding as planned.

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

	2005 & Prior Year Carry Forward	2007 Previous 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						1,800	1,800						1,800
Change in Scope													0
New			9,000	9,000			9,000						9,000
New w/Future Year													0
Total Expenditure	**0**	**0**	**9,000**	**9,000**		**1,800**	**10,800**	**0**	**0**	**0**	**0**	**0**	**10,800**
Financing													
Debt			1,400	1,400	**1,400**		1,400						1,400
Subsidy (SCPI)													0
Prov. Subsidy/Grant													0
Development Charges													0
Other													0
Federal Grants													0
Reserves/Res Funds			7,600	7,600		1,800	9,400						9,400
Total Financing	**0**	**0**	**9,000**	**9,000**		**1,800**	**10,800**	**0**	**0**	**0**	**0**	**0**	**10,800**

Comments / Issues

- The 2007 Recommended Capital Budget is $10.8 million, including $9.0 million for new projects; $1.8 million for funding from 2006 projects being carried forward into 2007.
- The 2007 Recommended Capital Budget of $10.8 million is funded $9.4 million from the HFA Capital Reserve Fund, and $1.4 million from debt.
- Approval of the 2007 Recommended Capital Budget will result in no commitments beyond 2007, as the future-years' program is comprised of annual cash flow requirements.

2007 Recommended Capital Budget

2007 Recommended Capital Budget versus Debt Target

The 2007 Recommended Capital Budget meets its 2007 debt target of $1.4 million through maximizing the use of the HFA Capital Reserve Fund, with 15.6% funded through new debt and 84.4% funded through the reserve.

Capacity / Readiness to Proceed

The 2007 Recommended Capital Budget is entirely allocated to funding of the Health and Safety projects and the Program's State of Good Repair Maintenance Program, with a $10.8 million cash flow for 2007, comprised of new cash flow of $9.0 million, and 2006 funding of $1.8 million being carried forward into 2007.

The Program has achieved a spending rate for 2006 of 71% for the Maintenance Plan (excluding the Site Redevelopment Project), based on preliminary actual year-end expenditures.

The Program has hired a Capital Project Manager to co-ordinate the delivery of the maintenance plan, and is using the comprehensive building condition assessment compiled in 2005/ 06 by Paradigm Engineering Group Inc. as the basis of establishing project priorities. Factors such as risk and financial considerations are also determinates in the establishment of project priorities.

The following table summarizes spending priorities that comprise the 2007 Recommended Capital Budget.

2007 Recommended Capital Budget	$000s	
Mechanical Upgrades		**5,764**
Ventilation System	2,000	
Heating Plant Upgrades	1,642	
HVAC System Upgrades	898	
Bathroom Fixtures	694	
Water Heater	530	
Electrical Upgrades		**988**
Fire Alarm/ Supression System	540	
Electrical Systems	328	
Nurse Call System	120	
Building Upgrades		**2,248**
Paving & Landscaping	596	
Windows/ Doors	529	
Structural - Other	481	
Roofing	357	
Elevator Upgrades	205	
Plumbing Infrastructure	80	
Total		**9,000**

Operating Budget Impact

Incremental Operating Impact Summary

Incremental Operating Budget Impact	2007	2008
Program Costs (net) ($000s) Debt Service Charges ($000s) Approved Positions	42	154

Program Incremental Operating Costs

There are no incremental operating costs associated with the 2007 Recommended Capital Budget for HFA.

Debt Service Costs

The 2007 Recommended Capital Budget will result in new debt service cost of $0.042 million in 2007; and $0.154 million in 2008.

Debt service cost of repayment of principal and interest is calculated according to corporate guidelines, in the following manner: 3.0% Year 1, and 14% for subsequent years.

PART II: ISSUES FOR DISCUSSION

5-Year Capital Plan Issues

HFA Capital Reserve Fund

The 5-Year Capital Maintenance Program includes draws of $33.4 million from the HFA Capital Reserve Fund. In addition, the Program is forecasting an annual contribution from the Ministry of Health Long Term Care (MOHLTC) of $1.65 million in each year for 2007-2011 of Provincial Structural Compliance Premiums. As well, the Program anticipates that there will be a change in the MOHLTC capital funding policy, which by 2010, will provide the Program with additional provincial subsidy that will help fund the Capital Maintenance program.

Although the Provincial Structural Compliance Premium ($9.9 million) and the other provincial capital subsidies ($4.125 million) have not been confirmed, the Program is confident projecting that these capital subsidies will become available during the course of the Recommended 5-Year Plan.

Details are provided below:

HFA Capital Reserve Fund XR2103	Proposed Deposits/ (Withdrawals)						
	2006	2007	2008	2009	2010	2011	Total
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Fund balance, Dec 31, 2005	33,393.0						33,393.0
Projected draws from July 1 to December 31, 2006 (1)	(13,925.0)						(13,925.0)
Draw to Fund Capital Maintenance Program		(9,400.0)	(6,400.0)	(4,600.0)	(6,200.0)	(6,800.0)	(33,400.0)
Provincial Structural Compliance Premium	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	1,650.0	9,900.0
Other Provincial Capital Subsidies					1,950.0	2,200.0	4,150.0
Interest Income	1,780.0	921.0	640.0	400.0	324.0	226.0	4,291.0
	22,898.0	**16,069.0**	**11,959.0**	**9,409.0**	**7,133.0**	**4,409.0**	**4,409.0**

Note (1) $13,925.0 comprised of 2006 Capital Maintanence draw of $4.4 million and Council approved draw of $9.525

Planned funding for the HFA Capital Maintenance Plan beyond 2011 is uncertain, but it is anticipated that additional Provincial reserves will be available.

Capacity / Readiness to Spend

Given the funding increase for the Recommended 5-Year Plan ($8.68 million for 2007-2011) from historical spending averages ($2.892 million for 2002-2006) and the Program's capacity to spend its budget, as previously discussed in Capacity (see pg. 7), performance will be monitored closely in 2007. Based on this review, the future year estimates may be reviewed prior to the 2008 capital budget process.

Appendix 4
Reserve / Reserve Fund Review
($000s)

Reserve / Reserve Fund Name	HFA Capital Maintenance - SOGR & Health and Safety CHA009		Proposed Deposits/ (Withdrawals)				
		2006	2007	2008	2009	2010	2011
		$000	**$000**	**$000**	**$000**	**$000**	**$000**
HFA Capital Reserve Fund XR2103	31-Dec-05	33,393.0					
	Projected draws from July 1 to December 31, 2006 (1)	(13,925.0)					
	Provincial Structural Compliance Premium	1,650.0					
	Interest Income	1,780.0					
	2007 Draw to Fund Capital Maintenance Program		(9,400.0)				
	Provincial Structural Compliance Premium		1,650.0				
	Interest Income		921.0				
	2008 Draw to Fund Capital Maintenance Program			(6,400.0)			
	Provincial Structural Compliance Premium			1,650.0			
	Interest Income			640.0			
	2009 Draw to Fund Capital Maintenance Program				(4,600.0)		
	Interest Income				400.0		
	Provincial Structural Compliance Premium				1,650.0		
	2010 Draw to Fund Capital Maintenance Program					(6,200.0)	
	Provincial Structural Compliance Premium					1,650.0	
	Other Provincial Capital Subsidies					1,950.0	
	Interest Income					324.0	
	2011 Draw to Fund Capital Maintenance Program						(6,800.0)
	Provincial Structural Compliance Premium						1,650.0
	Other Provincial Capital Subsidies						2,200.0
	Interest Income						226.0
Total Reserve / Reserve Fund	Year-end, December 31 balances	**22,898.0**	**16,069.0**	**11,959.0**	**9,409.0**	**7,133.0**	**4,409.0**

Note (1) $13,925.0 comprised of 2006 Capital Maintanence draw of $4.4 million and Council approved draw of $9.525 million to fund the 2006 Operating Budget gap

Appendices 1-3 not available online.