

Analyst Briefing Notes

Administration Committee Review

(November 7, 2005)

Page

PART I: CAPITAL PROGRAM

Executive Summary	1
Recommendations	2
2005 Capital Variance Review	3
5-Year Capital Plan (2006-2010).....	4
2006 Capital Budget Submission Summary	6
2006 Proposed Capital Budget Changes	7
2006 Proposed Total Cash Flow & Future Year Commitments	8
Operating Budget Impact	N/A

PART II: ISSUES FOR DISCUSSION

2006 Issues	9
Issues Referred to 2006 Capital Budget.....	12
Outstanding Issues From Prior Years.....	12

APPENDICES

Appendix 1 2006 Proposed Capital Budget and 2007 to 2015 Revised Program	A1 – A6
Appendix 2 2006 Proposed Capital Budget & Future Year Commitments	A7 – A12
Appendix 3 2006 Proposed Capital Projects with Financing Details	A13 – A16
Appendix 4 Reserve / Reserve Fund Review	A17

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

Harvey Tham, Senior Financial Analyst
 Tel: (416) 397-4218

PART I: CAPITAL PROGRAM**Executive Summary**

- The 2005 Approved Capital Budget of \$67.304 million was 77% spent as at September 30, 2005. Actual expenditures by year-end are anticipated to be \$57.858 million, or 86% of the 2005 Approved Budget. The projection to year-end includes \$29.180 million in commitments, resulting in projected 2005 cash flow funding of \$25.181 million being carried forward into 2006. The carry forward funding is required to honour those commitments that have an anticipated delivery early next year.
- The 2006-2015 Revised Capital program totals \$184.465 million of which \$184.465 million is requested for the Program's 5 year capital plan, with 2006 cash flow of \$82.760 million, \$21.221 million in 2007, \$28.207 million in 2008, \$26.989 million in 2009 and \$25.288 million in 2010.
- The 2006 Proposed Capital Budget including previously approved commitments requires new 2006 cash flow of \$40.693 million gross funded from the Vehicle and Equipment Replacement Reserve. This cash flow combined with carry forward funding of \$16.886 million for 2004 and prior years and \$25.181 million for 2005 projects bring the total 2006 Capital Budget to \$82.760 million gross.
- 100% of the 2006 proposed new cash flow is allocated to State-of-Good-Repair projects.
- The 10 year Plan incorporates the SOGR backlog of \$45.9000 million as it is currently known. Significant backlog exists for Parks and Recreation (\$15.000 million); Transportation (\$12.780 million); Solid Waste (\$8.110 million) and Toronto Water (\$6.240 million).
- The 2007-2010 cash flow projections of \$21.221 million in 2007; \$28.207 million in 2008; \$26.989 million in 2009; and \$25.288 million in 2010 for Fleet Services be referred to the Deputy City Manager and Chief Financial Officer for review, in consultation with appropriate staff, and report back to the Budget Advisory Committee in the Spring of 2006 on a recommended Firm 5-Year Capital Plan.

Recommendations

It is recommended that:

1. the 2006-2015 Fleet Services capital program request with a total 10-year project cost of \$184.465 million be received;
2. the 2006 Capital Budget for Fleet Services with a total project cost of \$40.693 million and a 2006 cash flow of \$82.760 million be approved. The 2006 Proposed Capital Budget consists of the following:
 - a) New Cash Flow Funding for:
 - i) 17 new sub-projects with a 2006 total project cost of \$28.638 million that requires cash flow of \$28.638 million in 2006, with no future year commitments;
 - ii) 12 previously approved sub-projects with a 2006 cash flow of \$12.055 million;
 - iii) 7 sub-projects from previously approved projects with carry forward funding from 2004 and prior years requiring 2006 cash flow of \$16.886 million which is funded from the Vehicle and Equipment Replacement Reserve;
 - b) 2006 approved cash flow for 16 previously approved sub-projects with carry forward funding from 2005 into 2006 totalling \$25.181 million.
3. the Fleet Services Capital Budget be adjusted to agree with Programs' 2006 budgeted contributions to the Vehicles and Equipment Replacement Reserve to reflect any changes recommended to the contributions from the other Programs budgets during the 2006 Operating Budget process.
4. the revised cash flow projections of \$21.221 million in 2007; \$28.207 million in 2008; \$26.989 million in 2009; and \$25.288 million in 2010 for Fleet Services be referred to the Deputy City Manager and Chief Financial Officer for review, in consultation with appropriate staff, and report back to the Budget Advisory Committee in the Spring of 2006 on a recommended Firm 5-Year Capital Plan.

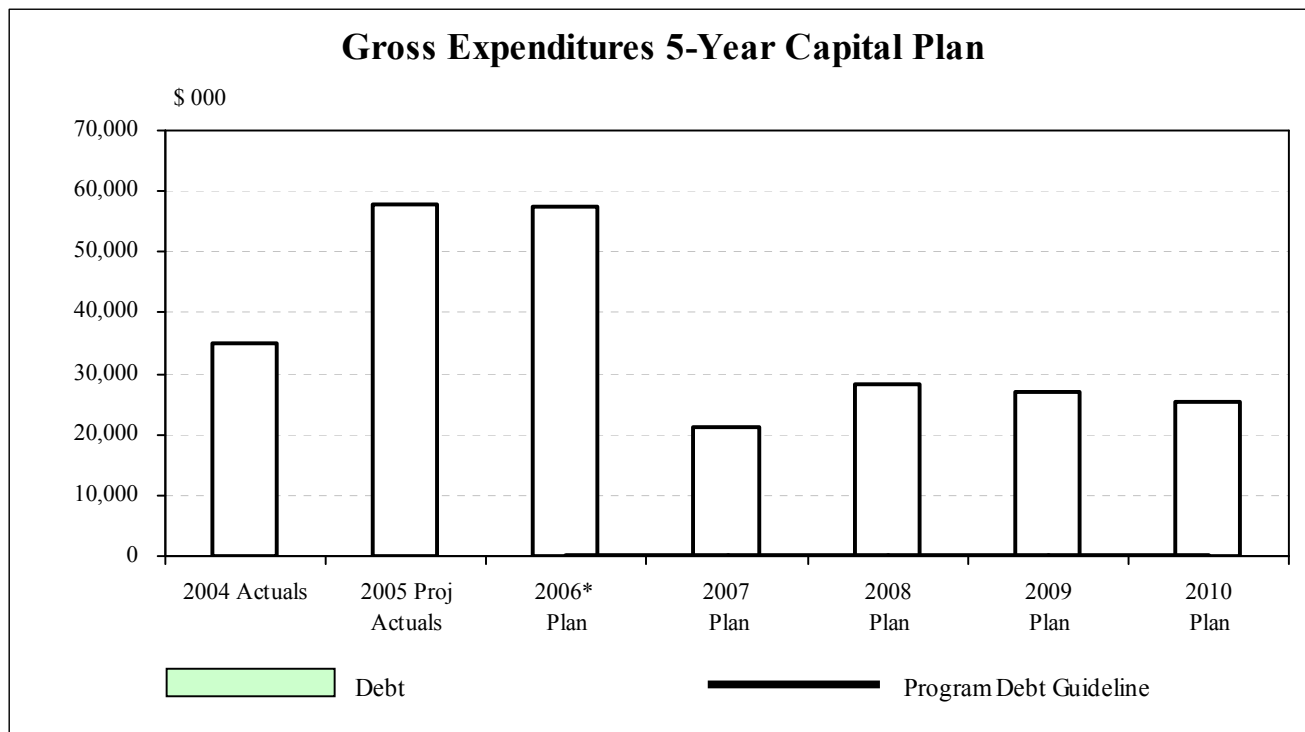
2005 Capital Variance Review

2005 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2005 Approved	Actuals as of Sept. 30 Y-T-D (3rd Qtr Variance)		Projected Actuals to Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
67,304	51,507	77	57,858	86	9,446

Comments / Issues:

- Fleet Services is projecting a year end spending rate of 86% or \$57.858 million for 2005 approved projects as of September 30, 2005. This spending rate represents an improvement over the 53% achieved in 2004.
- Out of the total projected unspent balance of \$9.446 million at the end of 2005, all of it will carry forward from 2005 into 2006. The 2006 Proposed Capital Budget does not reflect any subsequent changes to funding being carried forward from 2005 to 2006 based on the unspent cash flow balance projected as at September 30th 2005. Adjustments to carry forward funding will be reported through to the Budget Advisory Committee during its review of the 2006 Proposed Capital Budget.
- The projected year end actual includes commitments of \$29.180 million. The majority of these commitments are expected to carry over into 2006, with expected delivery of vehicles and equipment in early 2006, at which time payments will be due. In order to have the spending authority required to honour those commitments, a projected 2005 cash flow funding of \$25.181 million is included as carried forward into 2006.

5-Year Capital Plan (2006-2010)



	5 Year Plan							2006-2010
	2004	2005	2006	2007	2008	2009	2010	
Gross Expenditures:								
Budget (Excluding 1-Yr. Carry/Fwd)	48,388	47,245	57,579	21,221	28,207	26,989	25,288	159,284
1-Yr Carry/Fwd Gross (Reference only)	20,757	20,059	25,181					
Sub-Total Gross Exp. Including 1-Yr. Carry/Fwd	69,145	67,304	82,760					
Actual	34,845	57,858						
Financing:								
Debt			0	0	0	0	0	0
Debt Actuals (including 1-Yr Carry/Fwd)								
Program Debt Target			n/a	n/a	n/a	n/a	n/a	0
Other Financing Sources:								
Reserves/Reserve Funds			57,579	21,221	28,207	26,989	25,288	159,284
Development Charges								0
Federal								0
Provincial								0
Other Revenue								0
By Category:								
Health & Safety								0
Legislative								0
SOG			57,579	21,221	28,207	26,989	25,288	159,284
Service Improvement								0
Growth Related								0
Yearly SOGR Backlog Estimate (not addressed by current year projects)	0	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)		
Accumulated Backlog Estimate (end of year)	45,900	39,900	33,900	27,900	21,900			

- The 2006 Proposed Capital Budget for Fleet Services is fully funded from the Vehicle and Equipment Reserve financed through annual budgeted contributions from the Operating Budget of the participating Programs, and does not require any debt funding by the City.
- The 2006 Proposed Capital Budget includes \$0.420 million for the second year funding of the Green Fleet Plan which was approved by Council in 2004. The Green Fleet project is focused on greater use of biodiesel, hybrid-electric and natural gas vehicles to reduce the carbon dioxide and pollutants output of more than 4,000 vehicles and equipment used by the City.
- 2006 will also see Transportation Services acquire fourteen new regenerative-air street sweepers known as PM₁₀ and PM_{2.5} efficient street sweeper technology, to help replace the ageing fleet of sweepers, and help deliver the City's street sweeping service in a manner that will significantly contribute to improving Toronto's air and stormwater quality.
- The future year amounts are estimates based on the replacement values of the vehicles that will 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 criteria of 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 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.

- the Revised 5-Year Capital Plan of \$21.221 million in 2007; \$28.207 million in 2008; \$26.989 million in 2009; and \$25.288 million in 2010 for Fleet Services be referred to the Deputy City Manager and Chief Financial Officer for review, in consultation with appropriate staff, and report back to the Budget Advisory Committee in the Spring of 2006 on a recommended Firm 5-Year Capital Plan.
- Fleet Services has identified \$45.900 million in backlog of vehicles and equipment replacement. Fleet Services has included in the 2006 Proposed Capital Budget \$7.500 million to address the backlog in Transportation, and \$5.000 million in Solid Waste. Fleet Services expects the resulting balance of \$45.900 million in backlog to decrease by \$6.000 million each year over the next 5 years. Fleet Services will be reviewing with each of the Programs to determine a specific action plan to address the backlog.

2006 Capital Budget Submission Summary (\$000)

2006 Capital Projects		Total Project Cost		2004 Carry Forward		2006 Previous Commitment		2006 New		Total 2006 Request (w/o 2005 C/Fwd)		2005 Carry Forward		Total 2006 (Incl 2005 C/Fwd)	
Project / Sub-Project Name	Cat	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources
	*	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Community Services	3	93				93		-		93		244		337	
Library	3	224				80		144		224		81		305	
Corporate Services	3					-				-		685		685	
Parks and Recreation	3	5,509		1,852		3,204		2,305		7,361		4,863		12,224	
Finance	3	106				63		43		106		130		236	
UDS	3	113				84		29		113		210		323	
WES-Solid Waste	3	8,156		2,537		1,531		6,625		10,693		3,593		14,286	
WES-Tech Services	3	121				30		91		121		171		292	
WES-Transportation	3	2,639		1,910		1,350		1,289		4,549		2,562		7,111	
WES-Water Services	3			3,148						3,148		1,500		4,648	
WES- EMS	3	4,800						4,800		4,800		1,426		6,226	
WES-Fire	3	6,561		4,867		3,300		3,261		11,428		6,561		17,989	
Zoo	3	29						29		29				29	
Exhibition Place	3	555		83		-		555		638		268		906	
Insurance Contingency	3	300				-		300		300				300	
Waste Water Services	3	-		2,489						2,489		2,200		4,689	
Toronto Water	3	3,102				1,830		1,272		3,102				3,102	
Arena Boards	3	70				70				70		140		210	
Green Fleet	3	420				420		0		420		547		967	
Fleet Services	3	133						133		133				133	
Facilities & Real Estate	3	137						137		137				137	
City Clerk's	3	50						50		50				50	
Transport Sweepers	3	7,575						7,575		7,575				7,575	
Sub Total		40,693		16,886	-	12,055	-	28,638	-	57,579	-	25,181	-	82,760	-

2006 Proposed Capital Budget Changes (\$000)

		2006 Requested Cash Flow		Proposed Changes			2006 Proposed Cash Flow	
Project/Sub Project Name	Cat.	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Comments / Issues	Gross	Debt/ Internal Sources
2005 Carryforwards Other Carry Forwards (details on previous page)	3	25,181	0				25,181	0
Sub Total		25,181	0	0	0		25,181	-
2004 Carryforwards Other Carry Forwards (details on previous page)	3	16,886					16,886	0
Sub Total		16,886	0	0	0		16,886	0
2006 Previously Approved Commitments Other Previously Approved (details on previous page)	3	12,055	0				12,055	0
Sub Total		12,055	0	0	0		12,055	-
New Projects Other New (details on previous page)	3	28,638	0				28,638	0
Sub Total New Projects		28,638	0	0	0		28,638	0
Total 2006 Proposed (Incl. 2005 C/Fwd)		82,760	0	0	0		82,760	0
Less 2005 Carry Forwards		(25,181)	0	0	0		(25,181)	0
Total 2006 Proposed (Excl. 2005 C/Fwd)		57,579	0	0	0		57,579	-

Total 2006 Proposed Cash Flow & Future Year Commitments (\$000s)

	2004 & Prior Year Carry Forward	2006 Previous Commitments	2006 New Proposed	2006 Total Cash Flow Proposed	2006 Guidelines	2005 Carry Forward	Total 2006 Cash Flow (Incl 2005 C/Fwd)	2007	2008	2009	2010	2011- 2015	Total Cost
Expenditures													
Previously Approved	16,886	12,055		28,941		25,181	54,122						54,122
Change in Scope			28,638	28,638			28,638						28,638
New													
New w/Future Year													
Total Expenditure	16,886	12,055	28,638	57,579	0	25,181	82,760	0	0	0	0	0	82,760
Financing													
Debt													
Subsidy (SCPI)													
Prov. Subsidy/Grant													
Development Charges													
Other													
Federal Grants													
Reserves/Res Funds	16,886	12,055	28,638	57,579		25,181	82,760						82,760
Total Financing	16,886	12,055	28,638	57,579	0	25,181	82,760	0	0	0	0	0	82,760

Comments / Issues:

- The 2006 Proposed Capital Budget is \$82.760 million gross, including \$12.055 million in funding for previously approved commitments, \$28.638 million for new/change in scope projects and \$25.181 million for projects carried forward from 2005 to 2006, and \$16.886 million for projects carried forward from 2004 and prior years to 2006.

PART II: ISSUES FOR DISCUSSION**2006 Issues****2006 Proposed Capital Budget versus Guideline**

The 2006 Proposed Capital Budget for Fleet Services is fully funded from the Vehicle and Equipment Reserve financed through annual budgeted contributions from the Operating Budget of the participating Programs, and does not affect the debt level for the City.

5 Year Capital Plan Overview

In 2004, Fleet Services implemented a three year planning program as approved by Council, to enable Fleet Services to issue tenders and negotiate directly with manufacturing and suppliers to establish firm multi-year pricing. The three year planning cycle will have Council's commitment for 100% funding in the current year, 50% in each of the following two years.

With the 2006 Capital Budgets receiving Council's approval by December 31, 2005, the Program expects to be able to meet manufacturers' build out dates by the first quarter, and for this reason, Fleet Services is not asking for future year commitments as it did in 2004 and 2005.

The future year amounts are estimates based on the replacement values of the vehicles that will 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 criteria of 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 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.

This method of funding the City's vehicle replacement has a direct impact on the maintenance requirements in all the City's Program areas. Where insufficient funding is contributed to the Reserve, the backlog of replacement vehicles grows, resulting in higher maintenance costs.

5-Year Plan Proposed Changes (\$000)

Project / Sub-Project Name	Cat	2006		2007		2008		2009		2010		TOTAL 2011-2015	
		Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources	Gross	Debt/ Internal Sources
		1	2	3	4	5	6	7	8	9	10	11	12
PROGRAM REQUEST Proposed 2006 Changes		82,760	0	21,221	0	28,207	0	26,989	0	25,288	0	0	0
PROPOSED CHANGES: 2004 Carry Forwards:													
Previously Approved:													
New:													
Sub-Total Proposed Changes		0	0	0	0	0	0	0	0	0	0	0	0
Proposed 5-Yr. Cash Flow		82,760	0	21,221	0	28,207	0	26,989	0	25,288	0	0	0
Debt Guideline Variance To Debt Guideline			N/A		N/A		N/A		N/A		N/A		N/A

Capacity

The spending rate for 2005 indicates that the Program has been able to improve over prior year spending rates and has attempted to ensure that project delays are kept to a minimum. The spending rate for 2005 of 86% compares favourably to 2004's rate of 53%. Fleet Services will continue to close completed capital accounts through the quarterly capital variance reports

Backlog of Projects

In 2006 Fleet Services expects to reach \$45.900 million in backlog of vehicles and equipment replacement as follows:

Transportation	\$12.78 million
Parks and Recreation	\$15.00 million
Solid Waste	\$ 8.11 million
Corporate Services	\$ 1.11 million
Toronto Water	\$ 6.24 million
WES – Tech Services	\$ 0.23 million
Urban Development Services	\$ 0.16 million
Other	\$ 2.27 million

Fleet Services has included in the 2006 Proposed Capital Budget \$7.500 million to address the backlog in Transportation, and \$5.000 million in Solid Waste. Fleet Services expects the resulting balance of \$45.9000 million in backlog to decrease by \$6.000 million each year over the next 5 years. Fleet Services will be reviewing with each of the Programs to determine a specific action plan to address the backlog.

Charge Back Rates

In 2005, Council approved a long term strategy for funding contributions to the Vehicle and Equipment Reserve through a Chargeback rate program so that necessary replacements can be sustained on a timely basis.

The Chargeback Rate Program has established monthly rental rates for each type of vehicle and equipment that exists in the inventory. Each Program will include in their Operating Budget the interdepartmental charge from Fleet Services based on the number of vehicles and equipment at the respective rental rate. The rental rate is an all inclusive amount that would include maintenance, insurance, licensing as well as a contribution to the Vehicle and Equipment Reserve. Fleet Services will collect the rental rates through the Interdepartmental recoveries, and the Reserve contribution part of the Rental rate will be deposited into the Vehicle and Replacement Reserve.

The Chargeback Rate Program has no financial impact on Fleet Services Capital budget. The rental rate will potentially add cost pressures to the Operating Budgets of the Programs due to the Reserve contribution being included to fund the replacement of new vehicles and equipment purchased by the Program at the end of the useful life of the vehicle based on an eight year lifecycle.

Fleet Services estimates the 2006 inflow to the Vehicle and Equipment Reserve to be \$0.608 million, which will be reflected as a pressure in the various Programs' 2006 Operating Budgets. There will be no draw from the Reserve until 2014, when the 2006 vehicle models reach the end of their expected useful life, which is 8 years.

Programs will continue to budget a contribution to the Vehicle and Replacement Reserve for their replacement on a "Pay as you go" basis, namely, value for value. eg: If a Pick up Truck has to be replaced in 2006 at a cost of \$50,000, the Program will have to budget a \$50,000 contribution to the Reserve in their Operating Budget to fund this purchase.

Fleet Services expects that the "Pay as you go" contribution will not be required in 2020, when all the Programs' vehicles and equipment will have been replaced and subsequent replacements will be entirely funded by the Rental rate program.

Issues Referred to 2006 Capital Budget

There are no issues referred to the 2006 Budget Process.

Outstanding Issues from Prior Years

There are no outstanding issues from prior years.

Appendix 1
2006 Proposed Capital Budget and 2007 to 2015 Revised
Program

Appendix 2
2006 Proposed Capital Budget & Future Years
Commitments

Appendix 3
2006 Proposed Capital Project with Financing Details

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

Reserve / Reserve Fund Name	Project / SubProject Name and Number	Balance as of Aug 31	Proposed Withdrawals			
			2006	2007	2008	2009 & Beyond
Vehicle and Equipment Replacement Reserve	Vehicle and Equipment Replacement	0.000	82.760			
Total Reserve / Reserve Fund		0.000	82.760	0.000	0.000	0.000