



TORONTO STAFF REPORT

November 23, 2005

To: Policy and Finance Committee

From: City Manager
Deputy City Manager and Chief Financial Officer

Subject: City of Toronto 2006 Budget Advisory Committee Recommended Capital Budget and 2007 - 2010 Preliminary Capital Plan

Purpose:

This report presents the City of Toronto 2006 Budget Advisory Committee (BAC) Recommended Capital Budget and 2007 – 2010 Preliminary Capital Plan, and requests approval for capital projects and associated 2006 cash flow and future year commitments. The report details by Program all of the amendments and recommendations made by the Budget Advisory Committee during the capital budget review process up to and including its meeting of November 18, 2005.

Financial Implications and Impact Statement:

2006 Capital Budget

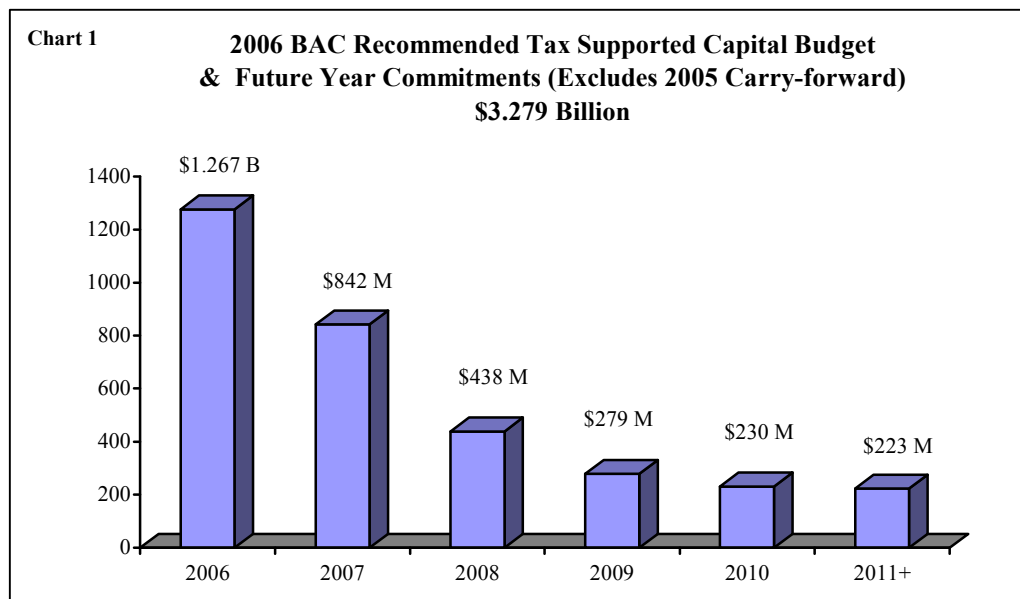
In accordance with Council approved direction and guidelines, the 2006 Capital Budget was prioritized within five categories as shown in Table 1 below (and detailed by Program in Appendix 3 attached). The primary objective of the Recommended Capital Budget continues to ensure that existing infrastructure and capital assets are rehabilitated and maintained in a state of

Category	2006	% Of Total	Preliminary Plan					TOTAL 2006-2010	% of Total
			2007	2008	2009	2010			
Health & Safety	48	3.8%	51	44	46	42	231	3.4%	
Legislated/City Policy	59	4.7%	107	97	65	77	405	6.0%	
State of Good Repair	860	67.9%	957	886	1,010	992	4,706	69.3%	
Sub-total	967	76.3%	1,115	1,027	1,121	1,111	5,342	78.7%	
Service Improvement and Enhancement	127	10.0%	118	89	72	75	481	7.1%	
Growth Related	173	13.7%	169	254	203	167	966	14.2%	
Sub-total	300	23.7%	287	343	275	242	1,447	21.3%	
Total - Tax Supported	1,267	100.0%	1,402	1,370	1,396	1,353	6,789	100.0%	

good repair. This is evident in Table 1 which shows that in 2006, State of Good Repair project

funding totals \$859.918 million or 67.9% of the 2006 BAC Recommended Capital Budget of \$1.267 billion (excluding carry-forward cash flow). Throughout the five year term of the Preliminary Capital Plan, State of Good Repair project funding remains the most significant expenditure category with a total allocation of \$4.706 billion or 69.3% of the projected total affordable expenditures of \$6.789 billion.

Approval of the 2006 BAC Recommended Tax Supported Capital Budget will require the following total cash flow (excluding 2005 carry-forward expenditures) for 2006 and associated future year commitments (see Chart 1 below): \$1.267 billion in 2006; \$841.987 million in 2007; \$437.986 million in 2008; \$279.025 million in 2009; \$230.270 million in 2010 and \$222.981 million in 2011 and beyond, for a total project cost of \$3.279 billion during the period 2006 to 2015 (see Appendix 1(ii)). In accordance with the Council-Approved Carry-forward Policy, 2005 Council Approved cash flow for projects that were not completed (totalling \$155.995 million) will be brought forward to 2006 (see details in Appendix (1(v))). Including 2005 carry-forward cash flow, the 2006 BAC Recommended Total Cash Flow is \$1.423 billion (see Appendix 1(i)).



Cash flow and future year commitments for the 2006 BAC Recommended Rate Supported Capital Budget for Toronto Parking Authority, excluding 2005 carry-forward funding is \$34.20 million. The 2005 carry-forward funding of \$4.489 million brings the total 2006 BAC Recommended cash flow to \$38.285 million with a future commitment of \$0.400 million in 2007.

2006 Capital Financing

Debt constitutes the largest single source of financing for the 2006 BAC Recommended Tax Supported Capital Budget. As indicated in Table 2 below, debt of \$492.485 million (Debt / CFC of \$616.657 million less CFC of \$124.172 million) or 49% of the total capital budget is recommended. The successful negotiation of a New Deal for Cities and Communities with the Provincial and Federal governments secured funding support for the Toronto Transit Commission (TTC) Capital Program. The Agreement for the Transfer of Federal Gas Tax Revenues under the

New Deal for Cities and Communities, along with infrastructure funding commitments from the Federal government will yield \$212.039 million; while the Provincial government's Dedicated Gas Tax Funds for Public Transportation Program and other funding from Provincial Infrastructure Programs will yield another \$173.211 million. These capital funds represent real progress toward the 1/3 funding formula for public transit that the City has pursued since 2002. Furthermore, the assistance from the other orders of government has afforded the City the opportunity to maintain reasonable State of Good Repair spending levels for other City Programs and ABCs. Other significant funding sources include Reserves / Reserve Funds of \$134.122 million, Capital from Current funding of \$124.172 million, and Development Charges of \$42.959 million. A detailed listing by ward of Development Charge Funded Projects is attached as Appendix 7.

Including debt service charges, the 2006 BAC Recommended Tax Supported Capital Budget will have an estimated operating budget impact of \$19.565 million in 2006; \$81.193 million in 2007; \$117.105 million in 2008; \$134.411 million in 2009; and, \$131.472 million in 2010 for a total of \$483.746 million.

Programs / ABCs	Gross Exp.	Source of Financing					
		Prov. Grants & Subsidies	Federal Grants & Subsidies	Dev. Charges	Reserves/ Reserve Funds	Other Sources	Debt/CFC
City Operations	586	5	4	37	119	58	363
Special Purpose Bodies	85	1	0	1	15	1	67
Holdback	-						
Total Tax Supported Program Before Transit & TPA	671	6	4	38	134	59	430
GO Transit	20	-	-	-	-	-	20
Toronto Port Authority	3	-	-	-	-	-	3
Toronto Transit Commission	573	173	212	5	-	19	164
Total - Transit & TPA	596	173	212	5	-	19	187
Total - Tax Supported Program	1,267	179	216	43	134	78	617

2006 Debt Financing

Debt affordability targets were established on assumptions about the condition of the City's infrastructure, availability of non-debt funding, and assessment of how much new debt the City could reasonably afford without significantly increasing the debt service cost burden on the operating budget and impacting the City's credit rating. Since 1998, debt as a funding source has ranged from a low of 31% in 1998 to 59% in 2000; and on average has approximated 45% of the annual capital budget. After critical analysis and forecasts of the City's fiscal position during the period 2006 to 2010, the Deputy City Manager & Chief Financial Officer (DCM & CFO) recommended debt affordability targets as shown in Table 3 below. These debt targets were approved by Council in May of 2005 and represent a significant commitment to move towards implementation of a firm five-year capital plan for the first time in the history of the

amalgamated City of Toronto. The approved debt target for 2006 is \$485 million. This includes new debt of \$350 million of which \$200 million or 57% was allotted to TTC and \$150 million or 43% allocated to all other City Programs. For the five years 2006 to 2010, the cumulative new debt target is \$2.281 billion. New debt included in the five year cumulative target totals \$1.606 billion, with \$856 million or 53% allocated to TTC and \$750 million or 47% allocated to City Programs and other ABCs.

The Deputy City Manager & Chief Financial Officer, in accordance with Provincial regulations, confirms that expenditures in the amount of \$492.485 million for projected borrowing requirements (i) can be financed by the issuance of debentures; (ii) is within the City's updated

Source of Financing	2005	2006	2007	2008	2009	2010	Total 2006 - 2010
Baseline Debt (Retire / Reissue)	135	135	135	135	135	135	675
New Debt:							
TTC	237	200	200	186	135	135	856
City	155	150	150	150	150	150	750
Total Affordable New Debt	392	350	350	336	285	285	1,606
Total Debt	527	485	485	471	420	420	2,281

Debt and Financial Obligation Limit; and (iii) with debenture terms will not exceed 10 years. The DCM & CFO further confirms that funds are available from the other financing sources as summarized in Table 2 above.

The 2006 BAC Recommended Capital Budget includes debt financing of \$492.485 million or about \$7.7 million above the debt guideline of \$485 million. It is anticipated that final adjustments to the TTC budget should result in a final 2006 recommended debt financing level of \$485 million.

2007 – 2010 Capital Plan

The present 2007 – 2010 Capital Plan is approximately \$784 million above the Council approved debt guideline. Given the time constraints in the 2006 capital budget process, it is recommended that staff be directed to report through BAC, Policy & Finance (P&F) and Council by June 2006 with a 2007 – 2010 Capital Plan within Council approved guidelines.

Summary

In summary, the 2006 BAC Recommended Tax Supported Capital Budget of \$1.267 billion (excluding 2005 carry-forward funding) satisfies the City's objective of maintaining its infrastructure and other capital assets in a reasonable State of Good Repair. The 2006 BAC Recommended Capital Budget is fiscally responsible and will meet the Council approved debt

target. It achieves Council priorities and provides assurance that approved services and service levels will be delivered. This notwithstanding, the significant discrepancy between *needs* identified by City Programs and ABCs and what is affordable confirms that the City continues to have a deferred maintenance or backlog issue which must be addressed in the future capital plan.

Recommendations:

Corporate Capital Recommendations

It is recommended that:

- (1) the 2006 – 2015 Capital Program for the City of Toronto totalling \$11.701 billion as detailed by Program and Agency, Board and Commission (ABC) in Appendix 5, comprising Tax Supported projects of \$11.563 billion and Rate Supported projects of \$138.063 million be received;
- (2) the 2006 BAC Recommended Tax Supported and Toronto Parking Authority Rate-Supported Capital Budget with a total project cost of \$3.474 billion that require 2006 cash flow of \$1.461 billion and future year commitments of \$842.387 million in 2007; \$437.986 million in 2008; \$279.025 million in 2009; \$230.270 million in 2010; and \$222.981 million in 2011 - 2015 be approved as follows:
 - a) New Cash Flow Funding:
 - (i) new and change in scope projects with a total project cost of \$1.762 billion as detailed in Appendix 1(iii) be approved. These projects require 2006 cash flow of \$669.588 million and future year commitments of \$548.983 million in 2007; \$230.258 million in 2008; \$120.176 million in 2009; \$186.084 million in 2010 and \$7.240 million in 2011 - 2015;
 - (ii) previously approved projects with total commitments of \$1.507 billion be approved. These projects require 2006 cash flow of \$587.384 million and future year commitments of \$293.404 million in 2007; \$207.728 million in 2008; \$158.849 million in 2009, \$44.186 million in 2010 and \$215.741 million in 2011 - 2015; and
 - (iii) previously approved projects with carry-forward funding from 2004 to 2006 totalling \$43.889 million; which forms part of the affordability targets that requires Council to reaffirm its commitment be approved; and,
 - (b) 2005 Approved cash flow for previously approved projects with carry-forward funding from 2005 to 2006 totalling \$160.484 million gross and \$72.351 million debt as detailed in Appendix 1(v) be approved.
- (3) 2005 additional carry-forward funding for previously approved projects detailed in Appendix 6(i) attached totalling \$16.135 million gross and \$12.627 million debt be approved;

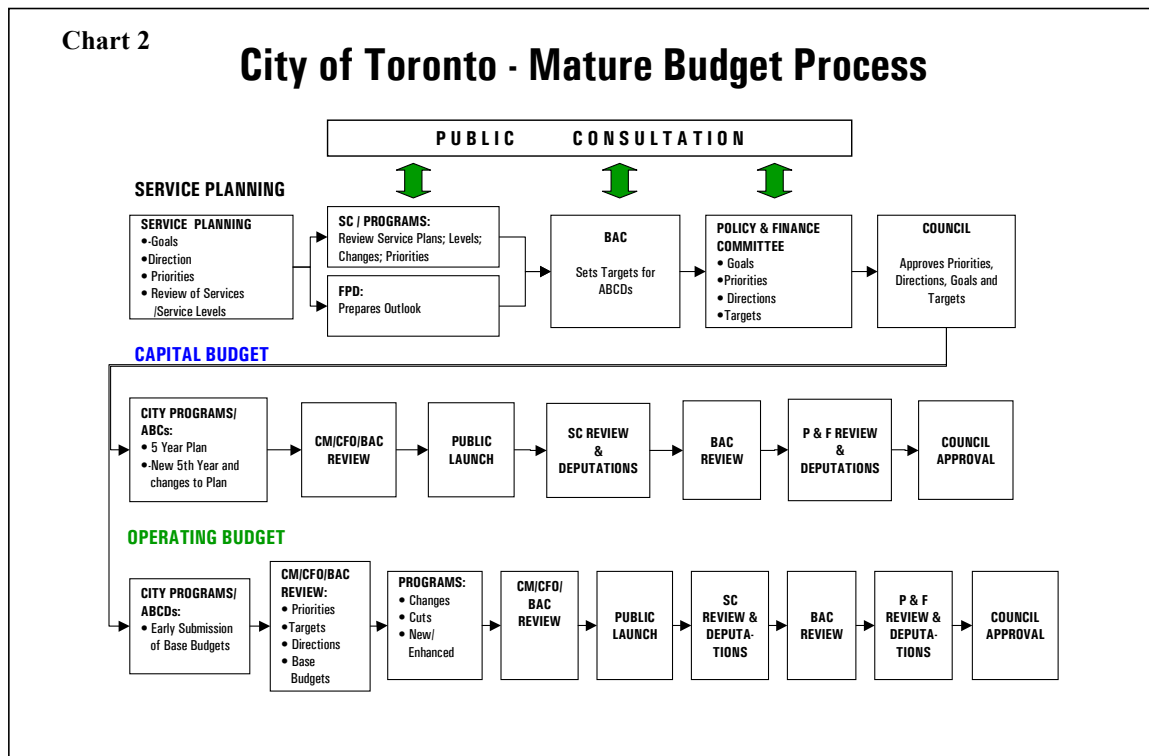
- (4) 2004 and prior years additional carry-forward funding for previously approved projects detailed in the Appendix 6(2) attached totalling \$6.506 million gross, with \$0.035 million debt impact be approved;
- (5) financing sources for the 2006 BAC Recommended Tax Supported Capital Budget comprised of \$134.122 million from Reserves and Reserve Funds, \$124.172 million of Capital from Current funding, \$42.959 million of Developmental Charge funding, \$78.258 million from other sources, \$178.402 million from Provincial Grants and Subsidies, \$216.442 million Federal Subsidies and debt of \$492.485 million (see Appendix 4) be approved;
- (6) capital expenditures in an amount not to exceed \$492.485 million be debenture financed for the Tax Supported 2006 Capital Budget, for a term up to, but not exceeding 10 years;
- (7) new debt service cost of \$15.0 million for 2006; \$78.0 million for 2007; \$112.0 million for 2008; \$125.0 million for 2009; \$128.0 million for 2010; resulting from the approval of the 2006 BAC Recommended Tax Supported Capital Budget, be approved for inclusion in the 2006 and future year operating budgets;
- (8) Appendix 7 which lists by ward, capital projects included in the 2006 – 2010 Capital Budget and Preliminary Plan that are funded in whole or in part by development charges be received for information;
- (9) the detailed Program Recommendations (Appendix 8) on the 2006 BAC Recommended Capital Budget and 2007 – 2010 Capital Plan be approved;
- (10) the Deputy City Manager and Chief Financial Officer report through the Budget Advisory Committee to the Policy & Finance Committee and Council by June 2006 on a recommended 2007 – 2010 Capital Plan in accordance with the Council approved debt guidelines;
- (11) the reports, transmittals and communications that are on file with the City Clerk's Office (including Appendix 8 herewith attached) as considered by the Budget Advisory Committee at its 2006 Capital Budget review meetings be received; and,
- (12) the appropriate City Officials be authorized and directed to take the necessary actions to give effect thereto.

Background:

Capital Budget Issues – Directions, Policies and Guidelines

At its meeting of May 28, 29 and 30 2005, Council considered a staff report entitled 'City of Toronto 2006 Budget Process, Directions and Guidelines'. This report built on the foundation set in 2004 and provided a framework for a new budget process that incorporates best budget practices, and specifically, requires Council to approve service plans that clearly detail service

goals, objectives and priorities, emphasizes a long-term financial planning perspective, establishes linkages to broad organizational goals, and focuses budget decisions on results and outcomes.



The new Capital Budget Process is illustrated in Chart 2 above. It links the corporate and service planning processes with the budget process, emphasizes the need for budget directions and targets to be established early in the process, and requires engagement of all stakeholders. The new budget process separates the Operating and Capital Budget development and review process thereby enabling the approval of the Capital Budget by year end and ensuring the full fiscal year is available for completion of approved capital work. **Integral** to the new budget process is the expectation of up-front Council approval of priorities, directions, goals and targets which form the basis for preparing the Capital Budget and Plan. Key elements and steps of the capital budget process are as follows:

1. City Programs/ABCs prepare a capital budget and 5-year capital plan based on directions and targets approved by Council. In each subsequent year, a new fifth year is added and where warranted, changes to the plan will be made and considered.
2. Initial review of capital budget and plan submissions will be done by a joint team comprised of the City Manager, DCM & CFO and the Budget Advisory Committee. These reviews will confirm that submissions conform with budget targets, directions, and priorities prior to the public launch.
3. Once launched, the Proposed Capital Budget and Plan will be reviewed by Standing Committees to ensure that they address the capacity to deliver services and service levels

approved in the service planning phase. They will receive public depositions and examine the linkages between Sectoral and Service plans and Council priorities. Finally, Standing Committees will make recommendations to the BAC on the disposition of capital budgets under their policy purview.

4. After receiving the Standing Committee recommendations, the BAC will undertake an intensive review of the capital budget and plan. If warranted, changes may be made to ensure proper alignment with priorities, to redistribute resources based on public depositions and Standing Committee recommendations in an effort to address the needs and demands within an affordable fiscal framework.
5. BAC then submits its capital budget recommendations to Council through the Policy and Finance Committee and is approved by Council.

For the most part, development of the 2006 – 2010 Capital Budget and Plan complied with the new budget process. While it was intended that a firm 5-year Capital Plan be approved for 2006, more time is required to adjust the 2007 – 2010 Capital Plan so as to remain within the established debt target. The significant gap between capital spending needs and the Council approved debt targets and the accelerated capital budget process for 2006, requires additional time to re-prioritize projects and strategies to meet the overarching goal of rehabilitating and maintaining existing infrastructure in a state of good repair within the funds available. Therefore, staff will report through BAC, P&F and Council by June 2006 on a 2007 – 2010 Capital Plan within Council approved guidelines.

Guidelines for the 2006 Capital Budget Process mandated City Programs and ABCs to prioritize their requests within the same categories prescribed in fiscal 2005. These include:

- Health and Safety: project alleviates existing health and safety hazard.
- Legislated / Policy: project satisfies legislative requirements or Council By-law or Policy mandates.
- State of Good Repair: project is critical to save the structural integrity of existing facility or repair significant structural deterioration.
- Service Improvement and Enhancement: project improves service delivery above the current Council approved standard or provides the introduction of new services.
- Growth Related: project supports growth and development across the City.

City Programs and ABCs prioritized their projects within the above categories to foster the best resource allocation decisions. All new projects including previously approved projects with new commitments underwent thorough reviews based on eligibility criteria established by the City Manager and DCM & CFO, and priorities approved by Council.

In light of the City's continuing fiscal sustainability and affordability challenges, priorities were again given to Health and Safety, Legislated/City Policy and State of Good Repair projects. As indicated earlier, notwithstanding the need to invest in infrastructure expansion to satisfy growing population and service demands, it was necessary to carefully balance expansion needs against the goal of maximizing the utility of existing capital assets.

In accordance with directions issued by the City Manager and the DCM & CFO, a 10-year Capital Program was submitted by City Programs and ABCs. Staff submitted capital project business cases that demonstrated and justified the need for the projects included in their Capital Budget and Capital Plan submissions. The business case justification was critical to the assessment of projects on a corporate basis, in order to ensure that the most effective resource allocation decisions were made.

2006 – 2010 Capital Budget and Plan Objectives, Principles and Guidelines

The 2006 – 2010 Capital Budget and Plan was developed based on principles that committed all staff to be responsive to strategies essential to maintaining the existing infrastructure, minimizing health and safety risks, addressing Council priorities while meeting the City's Long Term Fiscal goals. The 2006 BAC Recommended Capital Budget achieves prescribed Council directions, which include:

- Ensuring that the Capital Budget remains within an affordable fiscal framework;
- Allocating available funds first to:
 - previously approved projects already in progress or within six months of being started; then to,
 - New Health and Safety, Legislated, and State of Good Repair projects.
- Considering New Service Improvement and Growth related projects only if they satisfy Council's highest priorities and minimize debt financing;
- Maximizing partnerships in order to minimize debt;
- Minimizing the incremental impact of the Capital Budget on the Operating Budget;
- Using historical trends as part of the analysis and justification of capital project and capital budget requests; and,
- Ensuring that all stakeholders are provided with the opportunity to participate in the budget process.

Further, capital budgeting guidelines approved by Council required that each capital project contained in the 2006 Capital Budget and 2006 Capital Budget and 2007 – 2010 Capital Plan conforms with the following specific principles and policies:

- Useful Life: Capital expenditures must relate to items with a useful life that matches or exceeds the standard debenture term of 10 years. The exception being fleet and related equipment covered under a separate policy where the useful life has a threshold of 5 years. Assets consumed or fully depreciated during the fiscal year and costs to maintain an asset in its original state are to be funded from operating sources.
- Physical Characteristics: Expenditures must be reasonably related to the acquisition, betterment, or replacement of a physical asset with a multi-year life. Betterment is defined as enhancing the service potential or extending the useful life of the asset.

- Expenditure Thresholds: The gross expenditure threshold for defining a capital item is a sub-project that has a minimum expenditure level of \$50,000.
- Timing: The capital budget must include only those projects that can reasonably be completed during the timeframe proposed in the business case.
- External Funding: Capital projects funded by external sources such as donations or grants shall not be started until and unless all external funding sources are received or guaranteed.
- Carry forward Policy: funding approved for two fiscal years after which time any funding required to complete projects must form part of debt affordability targets.

Carry Forward Policy

The 2006 BAC Recommended Tax Supported Capital Budget includes funding for carry-forward funding for 2005 projects totalling \$155.995 million. (See Appendix 1(v)). The carry-forward adjustments reflect updated projected actual expenditures for: (i) previously approved 2005 projects totalling \$16.135 million gross and \$12.627 debt; and (ii) 2004 and prior years projects totalling \$6.506 million gross with \$0.035 million debt. These projects were carefully evaluated to confirm that the principles prescribed in the carry-forward policy were met.

A capital carry-forward project is a previously approved project for which the desired outcome has not been achieved or capital work was not completed on schedule and the associated cash flow budget was not fully spent and / or committed in the year of approval and the unspent amount, or a portion thereof, is required in future years in to complete the project. Key elements of the carry-forward policy include:

- Cash flow funding approval will continue to exist for *one fiscal year* in addition to the year in which the project / sub-project was approved. In effect, City Programs and ABCs will be allowed to carry-forward unspent funds for capital projects / sub-projects for a period of one year subsequent to the year of original approval.
- Carry-forward funding requests for projects approved in the previous fiscal year will not form part of the budget-year debt affordability targets. However, Council approval to carry-forward the unspent amount must be obtained in order to establish spending authority.
- Where a project is not completed and approved funds are still not fully spent by the end of the second fiscal year, any carry-forward funding request will be treated as *new* and any further spending / funding request will form part of that year's debt affordability targets.
- Change in cash flows and / or project costs related to Change in Scope projects will not constitute carry-forward funding, under the premises of the policy. Change in Scope projects are to be considered new capital projects requiring new funding authority.
- During the capital budget process, City Programs and ABCs will conduct a complete review of all previously approved projects to determine their completion status. Projects that will not be completed by the end of the current fiscal year should be identified for carry-forward spending approval in the next fiscal year.

- On a project/sub-project basis, the carry-forward cash flow amount will not exceed the difference between the actual expenditures and the approved cash flow. Carry-forward requests included in the capital budget submissions are initially based on projected actuals. Therefore, during the capital budget review process, and again as part of the First Quarter Capital Variance Report of the budget year, City Programs and ABCs will be permitted to update their carry-forward requirements.

Capital Expenditure and Financing Principles

For the City of Toronto, capital expenditures generally include any expenditure on an asset which has been acquired, constructed or developed with the intention of being used on a continuous basis beyond the current budget year. Capital expenditures also include improvements, the purpose of which is to alter or modernize an asset in order to appreciably prolong its useful life or improve its physical output or service capacity. Capital expenditures are included in the capital budget and are financed from various sources of capital funds.

The City relies on a number of sources to fund its capital expenditures. These include Reserves and Reserve Funds, Provincial and Federal Grants, Development Charges, Capital from Current funding (or pay-as-you-go financing), Debt and Other Funding sources not listed above, such as donations.

Guiding principles influencing the selection of funding sources for specific capital projects include the *Equity* principle, which is aimed at ensuring that direct beneficiaries or consumers of a capital asset or service pay for it. In effect, if a project provides benefits to a specific group, then that group is made to pay for the development and related capital costs through user fees Development Charges. Projects that benefit the entire community are appropriately funded from property tax revenues such as Capital from Current funding.

The *effective financing* principle focuses on ensuring that sufficient funds are available when needed to proceed with a capital project. This principle recognizes that required funds are not always available from the operating budget to pay for capital projects. Therefore, the City must rely on other funding sources to generate the benefits required by its constituents such as debt and reserve and reserve funds.

In selecting amongst available funding sources, the City imputes the cost of borrowing along with other administrative costs associated with competing funding options. It also examines the impact of funding options on the operating budget with a view toward ensuring, in accordance with the *efficiency* principle, that the most cost-effective funding source is utilized.

Annually, the City undertakes an affordability analysis to determine the amount of capital funds available for the Capital Budget and Plan. This review assesses the amount of non-debt funds available, and the amount of debt that the City can afford based on its long-term fiscal plan, general state of its assets, and infrastructure expansion requirements to meet growing demands for services. Factors influencing the debt affordability determination include the cost of borrowing, policies on debenture / long term borrowing, the outstanding debt, the impact on credit ratings, and the impact of borrowing on the current account or operating budget.

Allocation of Council Approved Debt and CFC Targets

At its meeting of May 17, 18, and 19, 2005 Council approved debt / CFC targets for the years 2006 to 2010 and directed the “Deputy City Manager and Chief Financial Officer to report to Budget Advisory Committee ... on the Capital targets for each of the City’s Programs and ABCs, within the affordability debt [and CFC] guidelines.” Further, Council prescribed criteria for allocating available capital funds and specifically directed that “in allocating available capital funds in 2006, priority be given first to previously approved projects already in progress or within six months of being started, then to new Legislated, Health and Safety, and State of Good Repair projects.”

To ensure the most effective use of available resources, staff added the following criteria:

- Consideration be given to new Service Improvement and Growth Projects only if they fulfill Council’s Highest Priorities;
- Programs should be funded based on their ability to spend as evidenced in their actual spending performance during the period 2002 – 2004 inclusive.

The 2006 – 2010 Capital Forecast submitted with the 2005 Capital Budget formed the basis for allocation of the affordability targets. The forecast debt / CFC for 2006 exceeded the target by \$514 million and for 2007 – 2010 by \$1.825 billion. For the five years 2006 – 2010, forecasted debt / CFC exceeded the targets by \$2.338 billion (see Table 4).

Category	2006			FUTURE YEAR ESTIMATES (2007 - 2010)			TOTAL 5-YEAR (2006 - 2010)		
	Prev. Appr'd	New	Total	Prev. Appr'd	New	Total	Prev. Appr'd	New	Total
Health & Safety	14	36	51	1	150	150	15	186	201
Legislated/City Policy	33	54	86	9	192	200	41	245	287
State of Good Repair	92	597	689	55	2,794	2,849	147	3,391	3,538
Sub-total	138	687	826	64	3,136	3,200	203	3,823	4,026
Service Improvement and Enhancement	30	73	103	19	275	294	49	349	398
Growth Related	58	136	194	76	546	622	134	682	816
Sub-total	87	209	297	96	821	917	183	1,031	1,214
Total - Tax Supported	226	897	1,123	160	3,957	4,117	386	4,854	5,239
Debt/CFC Target			609			2,292			2,901
Unfunded debt			(514)			(1,825)			(2,338)

Analysis of the forecast revealed that 2006 Previously Approved projects required debt / CFC funding of \$226 million, leaving \$383 million available for new projects. Therefore, based on prescribed criteria, only new Health and Safety and Legislated projects and 48% of the total 2006 projection for SOGR projects could be funded. In the interest of equity, where it was evident that there were errors and / or omissions in specific Program / ABC forecasts, the City Manager and DCM & CFO made adjustments to the targets derived by applying the criteria detailed above. Every effort was made to ensure that projects that satisfied Council's highest priorities were funded.

After careful analysis and application of the approved criteria, the affordable debt / CFC targets were allocated to City Programs and ABCs as summarized in Table 5 below and detailed in Appendix 8 attached.

Programs / ABCs	Debt/CFC Target (Millions)						2006 - 2010 Total Submission	
	2006	2007	2008	2009	2010	Total 5 Year	Debt / CFC	% Funded
City Operations	326	330	317	289	283	1,545	2,762	56%
Special Purpose Bodies	57	50	51	54	48	260	443	59%
Holdback	1	3	18	46	61	129	-	0%
Tax supported Program Before Transit & TPA	384	383	386	389	392	1,934	3,205	60%
GO Transit	22	23	20	18	15	98	99	100%
Toronto Port Authority	3	3	3	2	2	13	12	100%
Toronto Transit Commission	200	200	186	135	135	856	916	93%
Total - Transit & TPA	225	226	209	155	152	967	1,027	94%
Total - Tax Supported Program	609	609	595	544	544	2,901	4,232	69%

Chart 3 below compares the debt / CFC in the 2006 Capital Budget and Plan Submissions from City Programs and ABCs, with the Council approved affordable debt / CFC targets and the 2006 – 2010 Proposed Capital Budget and Preliminary Plan. Evident is the substantive gap between the request and the targets. The submissions exceeded the affordability targets by \$325 million in 2006; \$499 million in 2007; \$456 in 2008; \$439 in 2009; and \$550 in 2010, for a total of \$2.269 billion over the five years. It is noted that the submissions were developed after the targets were assigned, which confirms that capital needs far exceed affordable funding.

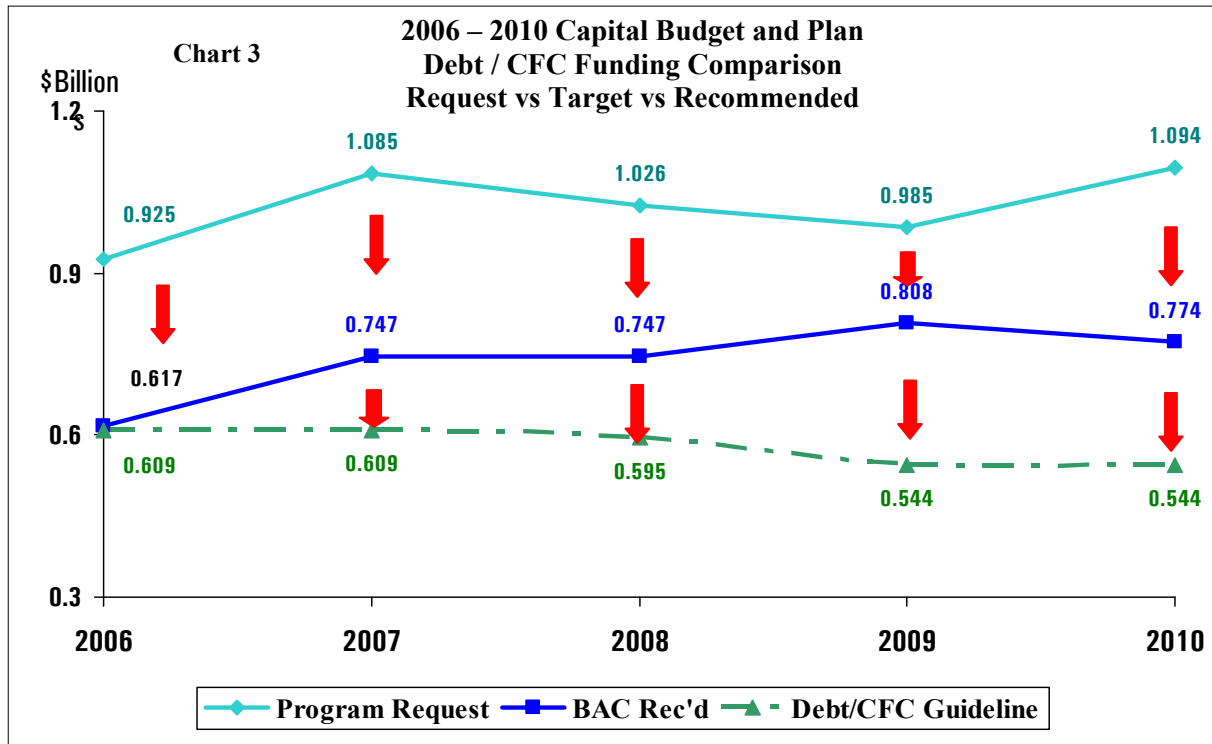
To ensure an optimal allocation of resources, the City Manager and DCM-CFO reviewed in detail the submissions from City Programs and ABCs. As part of the Administrative Review, the City Manager and DCM & CFO mandated City Program and ABC staff to justify their requests based on needs analysis, readiness to proceed, and ability to spend and to:

- Substantiate each project based on cost-benefit, and risk assessment;
- Confirm that partnerships / shared funding opportunities were fully explored to minimize the debt burden;
- Confirm capacity and discuss issues / impediments to achieving capital plan, including:
 - historical spending trends;
 - backlog of carry-forward projects yet to be addressed; and,
 - completion of audits, design work and/or community consultation;
 - demonstration that projects in year one were based on engineering estimates / solid costing;
 - indication whether feasibility / needs assessments were completed for projects in year two;
- Discuss strategies considered to mitigate SOGR backlog and the impact of any remaining backlog on future utility and service delivery; and,
- Demonstrate that Development Charges and other non-debt funding sources have been maximized.

After extensive reviews and budget adjustments, staff met the 2006 approved debt targets. While significant progress has been made with regards to the subsequent years, staff will continue to work on further revisions and adjustment to achieve the targets and will report to Council during the Spring of 2006 with a firm Five-Year Plan.

The 2006 Budget Process approved by Council required early engagement of BAC in the capital budget reviews. In this regard, members of BAC participated in working sessions with staff during the Administrative review. As well, they held thorough reviews of the capital budgets of several programs.

The 2006 Proposed Capital Budget tabled was \$1.253 billion gross expenditures (excluding 2005 carry-forward funding) which included debt / CFC financing of \$609.115 million, and met the target established by Council.



Committee Reviews

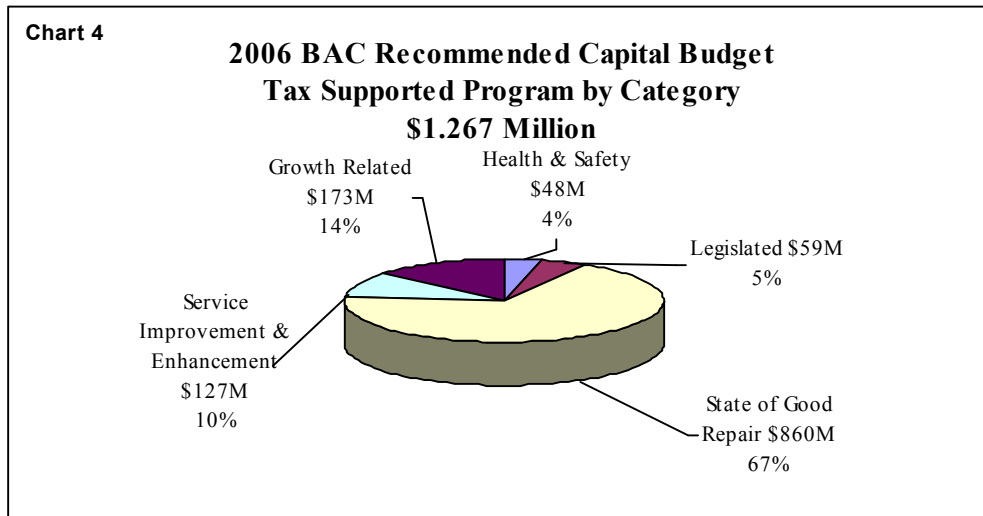
Standing Committees reviewed the 2006 Proposed Capital Budget for programs within their respective jurisdictions. Standing Committee recommendations were presented to the Budget Advisory Committee for its review and consideration.

Programs / ABCs	2006 Capital Budget							
	Program / ABC Request		Proposed		BAC Adjustments To Proposed		BAC Recommended	
	Gross	Debt	Gross	Debt	Gross	Debt	Gross	Debt
City Operations	761	488	576	358	10	5	586	363
Special Purpose Bodies	92	72	84	65	1	2	85	67
Tax Supported Program Before Transit & TPA	853	560	660	423	11	7	671	430
GO Transit	22	22	20	20	0	0	20	20
Toronto Port Authority	3	3	3	3	0	0	3	3
Toronto Transit Commission	640	340	572	163	1	1	573	164
Total - Transit & TPA	665	365	595	186	1	1	596	187
Total - Tax Supported Program	1,518	925	1,255	609	12	8	1,267	617
Debt / CFC Target		609		609				609
Variance - Over (Under) Target		316		-				8

During the BAC review, both Standing Committee recommended changes and the Staff Proposed Capital Budget were considered after reviewing the Standing Committee adjustments. BAC increased the 2006 Proposed Capital Budget by \$12 million gross and debt by \$8 million. The 2006 BAC Recommended Capital Budget is \$1.267 billion gross with debt financing requirement of \$616.657 million (including CFC) as shown in Table 6 above.

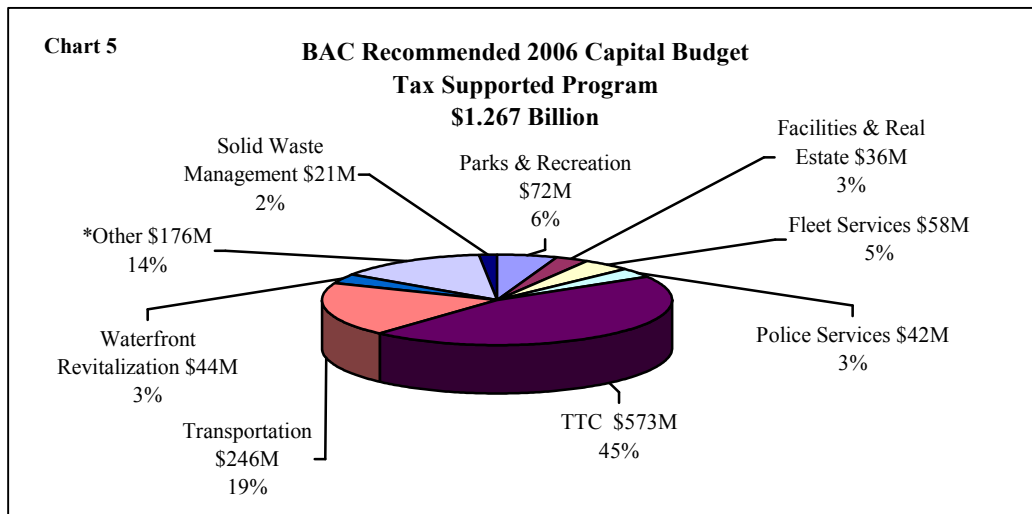
2006 Tax Supported Capital Budget by Category

Chart 4 below shows that 67% or \$860 of the 2006 BAC Recommended Capital Budget is allotted to SOGR. This is congruent with Council direction to give the highest priority to rehabilitation and maintenance of existing infrastructure and capital assets.



2006 Tax Supported Capital Budget by Major Program

Chart 5 below illustrates the 2006 BAC Recommended Tax Supported Capital Budget of \$1.267 billion net of carry-forward funding, by major Program. TTC and Transportation account for \$818.439 million or 64.6% of the total Tax Supported program. All other City Programs and ABCs combined represent \$448.626 million or 35.4% of the 2006 BAC Recommended Capital Budget.

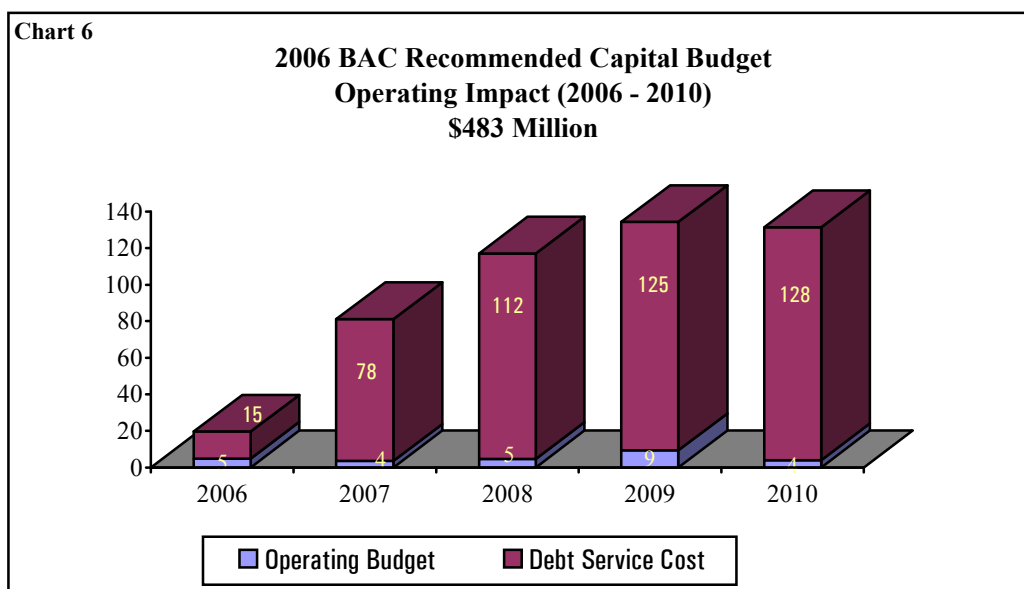


2006 BAC Capital Budget - Incremental Operating Impacts

Typically, the capital program may impact the operating budget in four areas:

- i. Increased operating costs such as those required for new or expanded facilities;
- ii. Efficiency savings from investments that reduce operating costs;
- iii. Direct contributions to Capital from the Operating Fund which reduce the annual borrowing requirements, and;
- iv. Principal and interest payments on debt issued for the capital program.

Chart 6 below shows the 2006 and future years' impact (including total debt services costs) of the 2006 BAC Recommended Capital Budget on the Operating Budget.



In summary, the 2006 BAC Recommended Capital Budget satisfies the immediate objective of maintaining the City's infrastructure and capital assets in a reasonable State of Good Repair. This notwithstanding, the City has a significant backlog of unmet needs that must be addressed in the near future. Given fiscal realities, it was necessary in 2006 to balance between the strategic objectives of maintaining capital assets in a state of good repair and satisfying the demand for growth while meeting debt target guidelines.

Toronto Transit Commission (TTC)

The 2006 Recommended TTC Capital Budget is \$572.761 million. The 2006 City financing is estimated at \$187.511 million including \$164 million of debt and \$24 million of other revenues.

Total Provincial funding is estimated at \$173.211 million in 2006. Provincial gas tax funding allocated to capital expenditures in 2006 is forecast to total \$41 million. Provincial base funding in 2006 is forecast to be \$132.211 million and is comprised of three funding programs: the Ontario Vehicle Transit Program (OVTP); the provincial share of the joint federal/provincial Canada Strategic Infrastructure Fund (CSIF); and the renamed Transit Technology and

Infrastructure Program (TTIP) — formerly titled Golden Horseshoe Transit Investment Partnerships (GTIP).

Total Federal funding is estimated to be \$212.039 million in 2006. Federal base funding from CSIF projects in 2006 is forecast to be \$64.399 million. Federal gas tax money is forecast to be \$147.640 million in 2006 and is comprised of two sources: \$48.900 million for the ongoing five cents population-based gas tax monies; and \$98.740 million for one cent ridership-based gas tax monies.

The Recommended TTC Capital Budget of \$572.761 million provides for the purchase of 232 new subway cars; 150 replacement low-floor hybrids buses; and, 80 low-floor clean diesel buses. Other projects include: the Mount Dennis bus facility; the Vehicle Overhaul Program (street cars and buses); and St. Clair Reserved Transit Lanes initiative. The Recommended 5-Year Capital Plan is estimated at \$3.3 billion with about 90 per cent of the 2006 Capital Budget allocated towards state of good repair initiatives.

The funding for the 5-Year Capital Plan now reflects the Council objective of an approximate one-third partnership with the other orders of government throughout 2006-2010.

2006 - 2010 TTC Proposed Capital Budget by Category & Financing Source (excl. 2005 Carry-forward) - \$Millions							
Expenditures	2006	2007	2008	2009	2010	Total 2006-2010	Percent of Total
Legislated	19	19	20	33	35	126	3.8%
State of Good Repair	518	647	560	548	558	2,831	86.4%
Service Improvement and Enhancement	30	18	7	94	26	175	5.3%
Growth Related	6	10	43	45	40	144	4.4%
Total Gross Expenditures	573	694	630	720	659	3,276	100.0%
Funded By:							
Provincial	173	263	258	231	229	1,154	35.2%
Federal	212	200	162	175	173	922	28.1%
Other	24	22	21	18	17	102	3.1%
Debt	164	209	189	296	240	1,098	33.5%
Total Funding	573	694	630	720	659	3,276	100.0%

City debt for the TTC over this period is \$241.762 million above the debt guidelines approved by Council at its meeting of May 17, 18 and 19, 2005.

Highlights:

The 2006 BAC Recommended Capital Budget addresses the City's Health and Safety, Legislated and State of Good Repair needs in an optimal way. While priority was given to these three categories, the capital program fulfils the short-term need for growth in Council directed priority areas and for service expansion in priority programs in order to accommodate demands and expectations of constituents.

Backlog / Deferred Maintenance

Consistent with Council priorities, State of Good Repair expenditures totals \$860 million or 68% of the 2006 BAC Recommended Capital Budget. Despite efforts to ensure that infrastructure and capital assets are adequately maintained, there continues to be a sizeable *gap* between spending needs and affordable funding levels. The 2006 BAC Recommended Capital Budget partially addresses the backlog issue in Programs that deliver key services to the Public by increasing their debt / CFC targets as noted below:

Transportations Services has had its debt / CFC target increased by \$22.304 million in 2006, and is expected to receive incremental increases in each year of the 5-year Plan. Nevertheless, the Program estimates that its backlog will approximate \$329 million at the end of 2006, and will grow by approximately \$240 million by 2010.

Parks, Forestry and Recreation's estimates backlog at \$50 million at the end of 2006, and forecasts that the backlog will increase by approximately \$32 million per year between 2007 and 2015. The Programs estimates are conservative given that SOGR audits have not been completed on several facilities. It is anticipated that the backlog could increase by \$300 million upon completion of the audits. Parks, Forestry and Recreation debt / CFC targets were increased by a moderate amount of \$3.226 million in 2006 with the view to increase funding over the projected 5-year period.

Facilities and Real Estate reports current SOGR backlog of \$98.800 million and expects that this will increase to \$103 million on completion of facility audits by the end of 2006. Better backlog estimates will be available in January of 2006 when most building audits will be completed.

Other Highlights

State of Good Repair - Major State of Good Repair projects recommended in the 2006 BAC Recommended Budget include the following:

- Ontario Health and Safety Maintenance and Retrofit of playgrounds to safety standards in order to ensure that children are protected (\$5.000 million gross, \$1.000 million debt).
- City wide park development and restoration, refurbishment of indoor and outdoor arenas, and major maintenance of various indoor pools in order to maintain the services and service levels expected (total cost of \$44.983 million gross expenditures and \$25.673 million debt).
- Resurfacing, rehabilitation and reconstruction of the transportation infrastructure including local and major roads and expressways, as well as bridges (\$139.740 million gross and \$135.706 million debt).

City Facilities - Numerous City facilities renewal and construction projects were considered to ensure that Council approved services and service levels are maintained. Major facilities projects include:

- Construction and design of two new child care centres in under-served areas, and completion of the Enderby Child Care Centre which will serve 62 children. These projects will cost \$3.707 million.
- Completion of the True Davidson Acres redevelopment to better serve the needs of the elderly (\$1.000 million gross and debt).
- Completion of a 50 bed shelter at 717 Broadview Avenue and construction of the Bethlehem United Shelter to help the disenfranchised (\$4.213 million gross and \$3.018 million debt).
- Construction of a new Fire Station, new 23 Division, 11 Division and new Training Facility (2006 gross expenditures of \$16.209 million entirely debt funded).

New Initiatives - Strategic investments in key growth areas that are aligned to Council's highest priorities have been addressed. Recommended 2006 Growth Related Expenditure total \$173 million gross and include the following New Initiatives:

- Rebuilding of culture specific properties such as the Guild Inn and revitalization of the area surrounding the Princess Gates in a Toronto / Milan initiative as part of the City's International Alliance Program (estimated gross expenditures of \$3.290 million and \$1.000 million debt in 2006).
- Expansion of the Parks, Forestry and Recreation program through design and construction of skateboard parks throughout the City (2006 expenditures of \$1.910 million gross and \$1.070 million debt).
- Transition to ongoing replacement of the City's Information Technology assets (estimate 2006 expenditure of \$16.138 million).
- Completion of Nathan Phillips Square Design competition and preparation of final designs (\$0.550 million gross and debt).
- Completion of the detailed design and Tundra phases of the North Zoo Site Redevelopment project (\$11.088 million gross and \$9.088 debt).

Environmental Initiatives – In response to Council policies on the environment the 2006 BAC Recommended Capital Budget proposed several energy efficient and other environmental protective projects including the following:

- Energy Retrofit Projects at Exhibition Place, Fire and Arena facilities, Pools and Community Centres (\$14.000 million gross and \$9.991 million debt).
- Continuation of the Green Fleet Plan to expand the use of bio-diesel, hybrid electric and natural gas vehicles to reduce carbon dioxide and pollutants output of more than 4,000 and equipment used by the City (\$0.480 million with no debt).

In general, projects were carefully selected to ensure that those designed to deliver on Council's highest priorities were considered. While the major investment is in SOGR, consideration was given to the need to protect the environment and to invest in growth demands of the public.

Capital Financing - Historical Comparison (1998 – 2006)

Table 7 below represents a historical summary of the City's capital budget by financing sources. Evident is that debt continues to be the largest single financing source and that until 2006, the other orders of government provided relatively small and inconsistent subsidies. For example, the Province of Ontario capital financing contribution declined from 38% of the 1998 Capital Budget including (Sheppard Subway funding) to an estimated 7% of the 2005 BAC Recommended Capital Budget.

Funding Sources	1999	2000	2001	2002	2003	2004	2005	2006	
								Proposed	BAC Rec'd
Prov. Grants & Subsidies	25.2	75.5	22.8	103.7	112.2	75.8	82.6	178.0	178.4
Federal Subsidy	0.0	0.0	0.0	76.5	103.6	70.0	53.9	220.0	216.4
Cap. from Current	143.4	146.2	148.2	146.5	124.2	124.2	124.2	124.2	124.2
Res./Res. Funds	370.9	89.1	170.2	143.9	131.5	132.1	93.2	125.0	134.1
Developmental Charges	0.0	8.7	4.5	8.1	20.2	24.0	43.8	44.0	43.0
Other	50.3	337.2	311.1	170.2	111.9	161.0	108.8	78.0	78.0
Debt	613.0	324.3	463.2	304.1	361.6	321.0	526.7	485.0	492.7
Total - Tax Supported	1,203	981	1,120	953	965	908	1,033	1,254	1,267

Maintaining the City's infrastructure valued at over \$52 billion without adequate assistance from the other orders of government has been a major challenge during the past several years and, has become more difficult given the City's relatively inelastic sources of revenue and structural fiscal problem. Successful negotiation of a New Deal with the other orders of government has provided a step to closing the revenue gap. Nonetheless, the City's accumulated infrastructure rehabilitation and State of Good Repair backlog (conservatively estimated at over \$3 billion) remains a problem and continues to pose a fiscal challenge. To compensate for the shortfall in financial support from the federal and provincial governments since 1998, the City has exhausted its non-debt internal capital financing sources. This has resulted in increased reliance on debt, and a significant capital asset maintenance backlog.

Capital Budget by Category - Historical Comparison (1999 – 2006)

Table 8 below shows that State of Good Repair spending has been by far the largest capital expenditure category since amalgamation. Yet, the SOGR estimated backlog is significant. A number of staff and independent studies have confirmed that the City has a structural fiscal problem. Specifically, the studies indicate a sustainable source of revenue to fund the Capital Plan.

*2006 – 2010 Recommended Capital Budget Preliminary Capital Plan
– Current and Future Year Projections*

Category	1999	2000	2001	2002	2003	2004	2005	2006 BAC Rec'd
Health & Safety				34	21	48	51	48
Legislated	20	96	105	68	75	75	66	59
State of Good Repair	897	541	695	599	682	571	647	860
Service Improvement	41	71	100	89	70	103	119	127
Growth	240	273	221	163	117	108	150	173
Total - Tax Supported	1,197	981	1,121	953	965	905	1,033	1,267

Future Year Projections refer to cash flows associated with project / sub-project proposals included in the capital plan. Current and Future Year Projections are the annual values of the cash flows required for the current year budget and planned future year capital work. As indicated in Table 9 below, the current and future year projections included in the 2006 – 2010 BAC Recommended Capital Budget and Plan totals \$6.789 billion. (Note: TTC estimates to be confirmed).

	Approved 2005	BAC Rec'd 2006	Capital Forecast				2006 - 2010
			2007	2008	2009	2010	
Citizen Centred Services - A	103,425	110,460	97,567	87,849	87,058	91,327	474,261
Citizen Centred Services - B	295,858	329,663	381,839	424,809	372,793	397,267	1,906,371
Internal Services	124,678	123,528	91,291	98,390	102,533	95,251	510,993
Other City Programs	19,822	22,982	34,706	25,503	15,019	11,319	109,529
Special Purpose Bodies	81,341	84,671	79,514	80,049	79,020	82,088	405,342
Total Tax Supported Programs (Excl. Transit & TPA)	625,124	671,304	684,917	716,600	656,423	677,252	3,406,496
GO Transit	19,437	20,000	20,000	20,300	18,400	15,200	93,900
Toronto Port Authority	3,000	3,000	3,000	3,000	1,700	1,700	12,400
Toronto Transit Commission - Sheppard Subway	16,981	122	1,500	1,050	(600)	2,000	4,072
Toronto Transit Commission (Excl. R.T.E.P.)	368,624	572,639	692,544	629,214	719,758	657,675	3,271,830
Total Tax Supported Programs (Incl. Transit & TPA)	1,033,166	1,267,065	1,401,961	1,370,164	1,395,681	1,353,827	6,788,698
Toronto Parking Authority	24,191	33,796	27,536	28,531	27,500	20,700	138,063
Total City	1,057,357	1,300,861	1,429,497	1,398,695	1,423,181	1,374,527	6,926,761

On average, capital expenditure forecast for Tax Supported Programs and ABCs is estimated at \$1.358 billion per year. This approximates an annual additional expenditure increase of more than \$91 million. Staff will continue to review the 2007 – 2010 Capital Plan and will report

through BAC, Policy & Finance (P&F) and Council by June 2006 with a 2007 – 2010 Capital Plan within Council approved guidelines.

Conclusions:

Approval of the 2006 BAC Recommended Tax Supported Capital Budget will result in the following future year commitments: \$841.987 million in 2007; \$437.986 million in 2008; \$279.025 million in 2009 and \$230.270 million in 2010, and \$222.981 million for the five years 2011 to 2015 for a total cost of \$3.279 billion, as outlined in Appendix 1(ii).

The 2006 Rate Supported Capital Budget includes the following estimated cash flows for the Toronto Parking Authority before carry-forward expenditures: \$33.796 million in gross capital expenditures in 2006 and \$0.400 million in 2007 for a total cost of \$34.196 million, as outlined in Appendix 1(ii).

The 2006 BAC Recommended Capital Budget addresses the City's Health and Safety, Legislated and State of Good Repair needs in an optimal way – given existing fiscal challenges. While priority was given to the three categories listed above, the capital budget also fulfils the short-term need for growth in strategic areas, and for service expansion in key Program areas to accommodate demands and expectations of the public. Managing the City's debt burden without compromising the state of good repair of existing assets or the health and safety of its citizens has been a major consideration. Nevertheless, there continues to be a *gap* between spending needs as identified in program submissions, and affordable internal funding estimates. Essentially, this gap must be addressed within the next few years in order to ensure that the City's assets are maintained in a reasonable state of good repair and that maximum utility is derived from existing infrastructure and capital assets.

The 2006 BAC Recommended Capital Budget includes debt financing of \$492.485 million or about \$7.7 million above the debt guideline of \$485 million. It is anticipated that final adjustments to the TTC budget should result in a final 2006 recommended debt financing level of \$485 million. The present 2007 – 2010 Capital Plan is approximately \$784 million above the Council approved debt guideline. Given the time constraints in the 2006 capital budget process, it is recommended that staff be directed to report through BAC, Policy & Finance (P&F) and Council by June 2006 with a 2007 – 2010 Capital Plan within Council approved guidelines.

The *New Deal* with the other orders of government paves the way towards resolution of the structural financial problem facing the City. It represents a good start. However, the City must continue to find additional predictable and sustainable funding tools to address the infrastructure deficit and to satisfy constituents' demand for growth.

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List of Attachments:

- Appendix 1 (i) 2006 Capital Budget and Future Year Commitments – Including 2005 Carry-forwards
- Appendix 1 (ii) 2006 Capital Budget and Future Year Commitments – Excluding 2005 Carry-forwards
- Appendix 1 (iii) 2006 Capital Budget and Future Year Commitments – New & Change in Scope Projects
- Appendix 1 (iv) 2006 Capital Budget and Future Year Commitments – Previously Approved Projects
- Appendix 1 (v) 2005 Carry-forwards by Program and Financing Sources
- Appendix 2 2006 Capital Budget by Financing Sources – Excluding 2005 Carry-forwards
- Appendix 3 2006 Capital Budget Summary of Gross Expenditures by Program and Category – Excluding 2005 Carry-forwards
- Appendix 4 2006 BAC Recommended Capital Budget and Future Year Commitments – Financing Sources by Year
- Appendix 5 2006 Capital Budget and 2007 – 2015 Capital Program – Excluding 2005 Carry-forwards
- Appendix 6 (i) Additional Carry-forward Funding Adjustments for 2005 Previously Approved Projects
- Appendix 6 (ii) Additional Carry-forward Funding Adjustments for 2004 and Prior Previously Approved Projects
- Appendix 7 Development Charge Funded Capital Projects by Ward
- Appendix 8 Budget Advisory Committee Recommendations by Program
- Appendix 9 Budget Advisory Committee Transmittal- Recommendations
- Appendix 9 (a) Reports Recommended for Adoption by the Budget Advisory Committee
- Appendix 9 (b) Reports Recommended by the Budget Advisory Committee to be Received Containing Recommendations
- Appendix 9 (c) 2006 Capital Briefing Notes
- Appendix 9 (d) Reports and Communications received by the Budget Advisory Committee