

Analyst Briefing Notes

Budget Committee Review

(October 29, 2007)

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PART I: CAPITAL PROGRAM

Executive Summary

- The 2007 Approved Capital Budget of \$6.831 million was \$0.884 million or 13% spent as at June 30, 2007. This resulted from impediments such as difficulties in filling vacant positions, and delays in negotiations with vendors. Actual expenditures by year-end are anticipated to be \$6.189 million, or 91% of the 2007 Approved Capital Budget. Of this unspent balance, \$0.641 million is projected to be carried forward into 2008.
- The 2008 Recommended Capital Budget; 2009-2012 Capital Plan and 2013 to 2017 Estimates total \$54.951 million of this total \$26.936 million is projected for the Program's 5-Year Capital Plan, requiring debt funding of \$4.590 million in 2008, \$4.683 million in 2009, \$3.685 million in 2010, \$3.500 million in 2011 and \$3.500 million in 2012 for a total of \$19.958 million, or an average of \$3.991 million per year.
- The Recommended 5-Year Capital Plan, excluding one-year carry forward funding, totals \$26.295 million, of which 19% (\$4.904 million) is allocated to State of Good Repair (SOGR) projects and the remaining 81% (\$21.391 million) to Service Improvement initiatives. The latter is largely driven by Information Technology projects designed to enhance efficiency and effectiveness in service delivery. Service Improvement initiatives include MLS Enhanced Computer Technology (\$2.550 million), Toronto Building Technology Advancement & Training (\$1.978 million), Toronto Building eServices (\$2.491 million); and eService for ML&S (\$1.031 million).
- The Recommended 5-Year Capital Plan, requires cash flows of \$5.646 million (excluding carry forward funding) in 2008; \$7.268 million in 2009; \$4.625 million in 2010; \$4.656 million in 2011; and, \$4.100 million in 2012.
- The Program's Recommended 5-Year Capital Plan meets the affordability guidelines of \$4.590 million in 2008, \$4.683 million in 2009, \$3.685 million in 2010 and \$3.500 million each year for years 2011-2012 respectively.
- The 2008 Recommended Capital Budget with a total recommended cash flow of \$5.646 million includes previously approved project commitments and new/change in scope projects requiring \$4.590 million in debt funding, \$0.431 funded from reserve funds and \$0.625 million funded through unapplied capital financing. The debt funding of \$4.590 million meets the debt target and there is a future year's commitment of \$1.470 million in 2009 and \$0.500 million in 2010.
- The Recommended 5-Year Capital Plan includes three new sub-projects, Toronto Building Technology Advancement, Toronto Building e-Service and eService for MLS which were not part of the 2007 – 2011 Approved Capital Plan. These projects, with a total project cost of \$5.5 million, will be funded by \$3.009 million from debt and \$2.491 million from reserve funds.

- The Recommended 5-Year Capital Plan will increase future-year PPF&A operating budgets by a total of \$1.408 million net over the five-year period. The operating impact in 2008 will be \$0.098 million. There will be 11 permanent staff required resulting from the approval of the Recommended 5-Year Capital Plan with 1.5 staff required for 2008.
- The Program's Recommended 5-Year Capital Plan has a level of funding which is sufficient to maintain Policy, Planning, Finance and Administration's 11 works yards in a steady state of good repair and while it does not address the \$4.8 million state of good repair backlog, the backlog does not grow over the 5 Year period.
- The Program's Recommended 5-Year Capital Plan includes capital projects that are aligned with the strategic direction of PPF&A of enhancing management and information systems for the Cluster B divisions through the Business Sustainment Systems and Computer System Integration projects.
- The 2008 Recommended Capital Budget includes initiatives to support service improvement by enhancing efficiency and effectiveness through projects such as Mainframe Application Replacement (\$1.110 million), MLS Enhanced Computer Technology (\$2.500 million), Toronto Building eServices (\$2.491 million), MLS eServices (\$1.031 million); and Computer System Integration (\$4.362 million).

Recommendations

The City Manager and Chief Financial Officer recommend that:

- (1) the 2008 Recommended Capital Budget for Policy, Planning, Finance and Administration with a total project cost of \$5.011 million and a 2008 cash flow of \$6.287 million and future year commitments of \$1.970 million be approved. The 2008 Recommended Capital Budget consists of the following:
 - (a) New Cash Flow Funding for:
 - (i) 23 new sub-projects with a 2008 total project cost of \$5.011 million that requires cash flow of \$4.966 million in 2008 and a future year commitment of \$0.045 million in 2009;
 - (ii) 2 previously approved sub-projects with a 2008 cash flow of \$0.680 million and a future year commitment of \$1.425 million in 2009 and \$0.500 million in 2010;
 - (b) 2007 approved cash flow for 9 previously approved sub-projects with carry forward funding from 2007 into 2008 totalling \$0.641 million;
- (2) new debt service costs of \$0.138 million in 2008 and incremental costs of \$0.505 million in 2009 resulting from the approval of the 2008 Recommended Capital Budget, be approved for inclusion in the 2008 and future year operating budgets;
- (3) operating impact of \$0.098 million in 2008 that emanate from the approval of the 2008 Recommended Capital Budget be considered within the overall scope of PPF&A's 2008 operating budget;
- (4) all sub-projects with third-party financing be approved conditionally, subject to the receipt of such funding during 2008 and if such financing is not forthcoming, their priority and funding be reassessed by City Council relative to other City-financed priorities and needs; and
- (5) the 2009-2012 Capital Plan for Policy, Planning, Finance and Administration totalling \$20.649 million in project commitments and estimates, comprised of \$7.268 million in 2009, \$4.625 million in 2010, \$4.656 million in 2011; and \$4.100 million in 2012 be approved.

2007 Capital Variance Review

2007 Budget to Actuals Comparison - Total Gross Expenditures (\$000s)					
2007 Approved	Actuals as of June 30 (2nd Qtr Variance)		Projected Actuals at Year End		Balance
\$	\$	% Spent	\$	% Spent	\$ Unspent
6,831	884	13	6,189	91	642

Comments / Issues:

At the end of June 30, 2007, Policy, Planning Finance and Administration (PPF&A) spent approximately \$0.884 million or 13% of its 2007 Approved Capital Budget of \$6.831 million. The under spending is mainly due to the following:

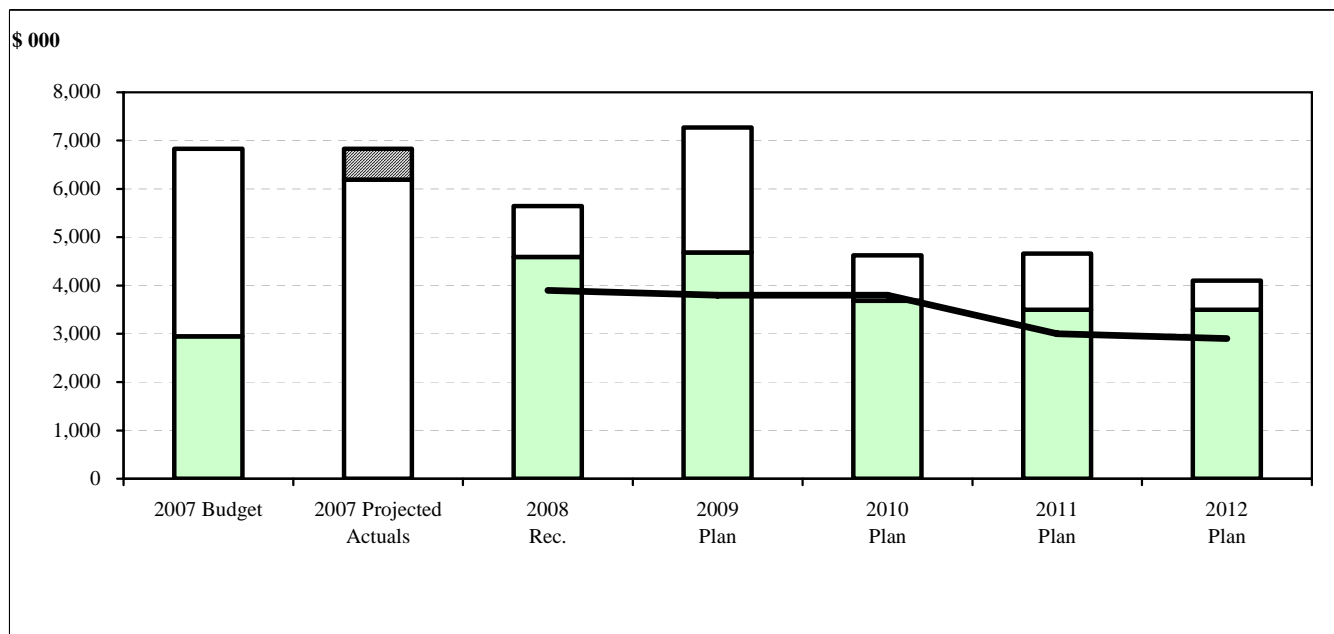
- **Business Sustainment Systems** - \$0.124 million or 6.6% of the 2007 approved cash flow for this project is spent. The Program expects to spend \$1.117 million or 59.2% of the 2007 approved cash flow. The projected under-spending is primarily attributable to the Remote Computing project staff's decision in early 2007 to not purchase a 3rd party tool for this project but to instead build an in-house solution. This decision has deferred the spending of a large portion of the project's budget that is allocated for procuring the project's hardware. Other projects such as the IBMS Building Division's TelePermit project have been delayed as staff are still in negotiations with the selected vendor in order to reach an acceptable legal agreement and statement of work.
- **2007 Asset Preservation** - \$0.026 million or 2.6% of the 2007 approved cash flow for this project has been spent. Road realignment work in front of the Fuel Management System at 2751 Old Leslie Street has deferred the completion of this project for this year. As a result, the 2nd Quarter Capital Variance Report approved by City Council on October 22 and 23, 2007 provided authority to reallocate funding to asphalt projects that are ready to proceed from the Asset Preservation projects list for 2008 and 2009 and the 2007 cash flow is expected to be fully spent by year-end.
- **Mainframe Application Replacement** - \$0.092 million or 16.9% of the 2007 approved cash flow has been spent. There have been difficulties in hiring the approved 4 Systems Integrators as per the project timeline. Projected actual spending is expected to be \$0.542 million or 58.4% of the 2007 approved cash flow by year-end.

The Program is forecasting a year-end spending rate of \$6.189 million or 91% of its 2007 Approved Capital Budget of \$6.831 million as reported at June 30, 2007. The funding from 2007 carried forward into 2008 included in the 2008 Capital Budget is \$0.641 million. Preliminary indications suggest that the projected spending rate will drop to around \$4.919 million or 72% of its 2007 Approved Capital Budget for the end of the 3rd Quarter. As a result, adjustments to carry forward funding will be reported through to Budget Committee during its review of the 2008 Capital Budget.

Cost Containment Impact

No capital projects that have been deferred as a result of cost containment in 2007.

5-Year Capital Plan (2008 Recommended Budget, 2009-2012 Plan)



	5-Year Plan							
	2007		2008	2009	2010	2011	2012	2008-2012
	Budget	Projected Actual						
Gross Expenditures:								
2007 Capital Budget & Future Year Commitments	6,831	6,189	2,605	450				3,055
Recommended Changes to Commitments			(1,925)	975	500			(450)
2008 New/Change in Scope and Future Year Commitments			4,966	45				5,271
2009 - 2012 Plan Estimates				5,798	4,125	4,656	4,100	18,419
1-Year Carry Forward to 2008		641						
Total Gross Annual Expenditures & Plan	6,831	6,830	5,646	7,268	4,625	4,656	4,100	26,295
Program Debt Target	2,945		3,900	3,800	3,800	3,000	2,900	17,400
Financing:								
Recommended Debt	2,945		4,590	4,683	3,685	3,500	3,500	19,958
Other Financing Sources:								
Reserves/Reserve Funds	612		431	360	440	660	600	2,491
Development Charges								0
Federal								0
Provincial								0
Other Revenue	826		625	2,225	500	496	0	3,846
Total Financing	4,383		5,646	7,268	4,625	4,656	4,100	26,295
By Category:								
Health & Safety	251							0
Legislated								
SOGR	1,985		830	1,002	1,018	1,054	1,000	4,904
Service Improvement	4,595		4,816	6,266	3,607	3,602	3,100	21,391
Growth Related								
Total By Category	6,831		5,646	7,268	4,625	4,656	4,100	26,295
Yearly SOGR Backlog Estimate (not addressed by current plan)			0	0	0	0	0	0
Accumulated Backlog Estimate (end of year)		4,800	4,800	4,800	4,800	4,800	4,800	4,800
Operating Impact on Program Costs			0	0	510	250	550	1,310
Debt Service Costs			138	645	626	510	490	2,409

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

5-Year Capital Plan Overview

- Service improvement projects account for 81% or \$21.391 million of the total proposed new cash flow in the 5-Year Capital Plan. These projects are anticipated to provide efficiency and technological enhancements across Cluster B Programs. Many of these projects are designed to leverage technology to enhance and improve service delivery for the Municipal Licensing and Standards, City Planning, Toronto Building, Technical Services and Transportation Divisions.
- The 5-Year Capital Plan reflects the allocation of significant resources to long-term state of good repair projects to primarily address asset preservation at shared yard facilities. Projects that maintain assets in a state of good repair represent 19% or \$4.904 million of the total proposed new cash flow on the 5-Year Capital Plan. PPF&A has indicated that the funding for state of good repair projects will not reduce the current backlog of \$4.800 million.
- Detailed business cases with solid costing estimates have been reviewed for the following major Information Technology related projects which have been included in the Recommended 5-Year Capital Plan:
 - The Computer System Integration has a cash flow of \$4.362 million over the Recommended 5-Year Capital Plan. This involves the integration of the Project Tracking Portal with work order applications, data warehouse, operational systems, financial information systems and enterprise infrastructure systems. Connectivity between the Project Tracking Portal and other business systems will result in improved productivity and service improvements. It will also serve as the main information source for the Corporate 3-1-1 project.
 - The Mainframe Application Replacement project has a cash flow of \$3.700 million over the Recommended 5-Year Capital Plan. This project will provide for the conversion of 15 legacy systems and will save an estimated \$0.412 million net per year corporately in annual maintenance fees beginning in 2010, as a result of the termination of the mainframe operation services contract with EDS.
 - The Business Systems Sustainment project has a cash flow of \$12.447 million over the Recommended 5-Year Capital Plan timeframe. The list of subprojects include support/enhancements for the IBMS project in the following areas; improving the quality of assessment data, remote computing, and the development of technology advancements across Cluster B. Also included in this project is a subproject for MLS Enhanced Computer Technology designed to enhance efficiency in order to reduce the amount of time required to investigate and resolve all ML&S enforcement inquiries.
- The 5-Year Capital Plan is funded primarily from debt which accounts for approximately 76% or \$19.958 million of the funding. The other 24% represents recoveries and reserve funding from Programs within the City such as Transportation and Toronto Water for paving projects and information technology projects. The Building Division Reserve Fund provides funding of \$2.491 million for the Toronto Building eServices project designed to provide eServices to the public in order to increase customer service.

Multi-Year Debt Affordability Target

The 2008-2012 Recommended Capital Plan has met the Council approved debt affordability targets for each of the five years.

Changes to the 2007 – 2011 Capital Plan

The major change in the Recommended 2008-2012 Capital Plan from the 2007-2011 Approved Capital Plan is found in the Business Sustainment Systems and Computer System Integration project. There are three capital projects; Toronto Building Technology Advancement, Toronto Building e-Service and eService for MLS with a total cash flow over the 5 Year Capital Plan of \$5.5 million that were introduced for 2008. Project funding for the three projects totalling \$5.5 million is \$3.009 million funded from debt and \$2.491 million from reserve funds. These projects are aligned with the strategic direction of PPF&A of enhancing management and information systems for the Cluster B divisions in order improve efficiency and compliance with corporate policy.

Program Capacity and Readiness to Proceed

Actual expenditures of \$6.189 million or 91% of the 2007 Approved Capital Budget of \$6.831 million are anticipated to be spent by year-end. The 2007 projected year-end spending rate represents a significant increase over the 2006 amount of \$3.445 million or 48.2% of the 2006 Approved Capital Budget of \$7.141 million.

The reduction in the Program's budget for Asset Preservation starting in 2007 to \$1 million led to a more rigorous refinement of costs and prioritization of projects. This reduction is proposed to continue for 2008. As a result, projects are constantly evaluated for ability to proceed. Reallocations are used to ensure that projects that are delayed are deferred and replaced with ones that are ready to be accelerated.

Policy, Planning, Finance & Administration has reviewed and refined its cost estimates as well as re-phased projects in an attempt to comply with the City's debt targets. The Program has the means to achieve the Recommended 5-Year Capital Plan within the specified timelines and funding targets that have been set.

Backlog of Projects – Unmet Needs

Asset Preservation - SOGR Needs

The 2008 – 2012 Capital Plan provides \$4.904 million for high priority Asset Preservation projects that address State of Good Repair requirements. The multi-year Asset Preservation program was developed through a detailed review of building condition assessments by Facilities and Real Estate. Priorities were developed for specific shared yard locations. The budget traditionally required an average steady State of Good Repair funding of approximately \$2.3 million per year. This has been reduced to approximately \$1.0 million per year in order to meet the corporate debt guidelines. The long-term challenge will be to address the State of Good Repair backlog which is estimated at \$4.8 million for the 11 shared yards. While the Recommended 5-Year Capital Plan does not reduce the State of Good Repair backlog, it is not forecasted to grow as a result.

Capital Project Highlights

Mainframe Application Replacement: \$3.700 million is recommended for the development of a non-mainframe platform for Policy, Planning, Finance and Administration. There is an existing contract with EDS to provide mainframe services for the period ending October 31, 2010. Council approved a strategy to migrate mainframe applications to a platform supported by City staff in order to be in a position to avoid the need for a renewal of the EDS contract.

MLS Enhanced Computer Technology: \$2.550 million is allocated to implement a new case management system that will support all of the different ML&S enforcement activities through one integrated system. This is an efficiency enhancing initiative which is expected to reduce the amount of time currently required to investigate and resolve all ML&S enforcement inquiries.

Toronto Building eServices: \$2.491 million is recommended to provide eService for the public, transparency and disclosure of information and building plans within the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA). This project will allow business in the City one stop electronic access to a wide range of Toronto Building Services. This will result in improved customer service and reduce staffing pressures that the Program is currently trying to manage.

MLS eServices: \$1.031 million is allocated to provide service over the Internet to the public allowing for 24 hour access. This will result in improved customer service and accessibility.

Computer System Integration: \$4.362 million is recommended to further develop a Project Tracking Portal (PTP) as the common computer system for the management of capital projects throughout the various Programs. This project will enhance the ability of project and contract management staff to monitor and control tenders/contracts/projects/specifications leading to better informed business decisions related to their respective budgets for which they are accountable.

Summary of Major Capital Initiatives

	\$000s						
	2008 Rec. Budget	2009 Plan	2010 Plan	2011 Plan	2012 Plan	Total 2008 -2012	Total 2013 -2017
IT sub-projects	4,816	6,266	3,607	3,602	3,100	21,391	22,360
Total	4,816	6,266	3,607	3,602	3,100	21,391	22,360

Summary:

Most of the IT projects in this 5-Year Capital Plan are systems-related service improvement projects; focussing on supporting the various IT processes across Cluster B.

Operating Budget Impact – 5-Year Plan Incremental Operating Impact Summary

Incremental Operating Budget Impact	2008	2009	2010	2011	2012
2008 Recommended Capital Budget					
Program Costs (net) (\$000s)	98.0				
Approved Positions	1.5				
Debt Service Charges (\$000s)	137.7	504.9	0.0	0.0	0.0
Recommended 2009-2012 Capital Plan					
Program Costs (net) (\$000s)		0.0	510.0	250.0	550.0
Approved Positions		0.0	5.0	2.5	2.0
Debt Service Charges (\$000s)	0.0	140.5	625.7	510.4	490.0
Total					
Program Costs (net) (\$000s)	98.0	0.0	510.0	250.0	550.0
Approved Positions	1.5	0.0	5.0	2.5	2.0
Debt Service Charges (\$000s)	137.7	645.4	625.7	510.4	490.0
<i>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.</i>					

Program Operating Impacts

The incremental operating impacts outlined above include the salaries and benefits for permanent staff working on projects for Business Sustainment Systems such as Plan/Drawing Database, Computer System Integration and the Document Management System. There will be 1.5 permanent staff and \$0.098 million in program costs added as a result of approving the 2008 Recommended Capital Budget.

There will be a total of 9.5 new permanent staff required and program costs of \$0.510 million in 2010, \$0.250 million in 2011 and \$0.550 million in 2012 arising from the approval of the Recommended 2009-2012 Capital Plan.

Debt Service Cost

Debt service costs resulting from approving the 2008 Recommended Capital Budget include \$0.137 million in 2008 and \$0.505 million in 2009. The Recommended 2009-2012 Capital Plan will result in debt service charges of \$0.141 million in 2009, \$0.626 million in 2010, \$0.510 million in 2011 and \$0.490 million in 2012.

**Total 2008 Recommended Cash Flow & Future Year Commitments
(\$000s)**

	2006 & Prior Year Carry Forwards	2008 Previously Approved Cash Flow Commitments	2008 New Cash Flow Recommended	2008 Total Cash Flow Recommended	2008 Debt Target	2007 Carry Forwards	Total 2008 Cash Flow (Incl 2006 C/Fwd)	2009	2010	2011	2012	2013-2017	Total Cost
Expenditures													
Previously Approved		680		680		641	1,321	1,425	500				3,246
Change in Scope			1,110	1,110			1,110	5					1,115
New			3,856	3,856			3,856	40					3,896
New w/Future Year													
Total Expenditure	0	680	4,966	5,646		641	6,287	1,470	500	0	0	0	8,257
Financing													
Reserves			431	431		0	431						
Other 1		625		625		150	775	1,425	500				2,700
Debt		55	4,535	4,590	4,590	491	5,081	45					5,126
Total Financing	0	680	4,966	5,646		641	6,287	1,470	500	0	0	0	8,257

Comments / Issues:

- The 2008 Recommended Capital Budget is \$6.287 million and includes funding for 2007 projects carried forward into 2008 of \$0.641 million; previously approved project commitment funding of \$0.680 million; and, \$4.966 million for new/change in scope projects.
- Approximately 80.8% or \$5.081 million of the 2008 Recommended Capital Budget is funded from debt, 12.3% or \$0.775 million by unapplied capital financing and 6.9% or \$0.431 million from the Building Reserve Fund.

2008 Recommended Capital Budget versus Debt Target

The 2008 Recommended Capital Budget for PPF&A is \$5.646 million of which \$4.590 million is funded by debt. The 2008 debt target for PPF&A was set at \$4.590 million and therefore the 2008 Recommended Capital Budget meets the debt target.

The debt affordability target was met by refining cash flows to Business Sustainment projects which were decreased by \$1.479 million and Asset Preservation projects by \$0.200 million.

Recommended Capital Budget by Category

State of Good Repair Projects represent 15% or \$0.830 million of project funding included in the 2008 Recommended Capital Budget. The 2008 debt target is sufficient to fund the 2008 State of Good Repair requirements. State of Good Repair projects are primarily Asset Preservation Projects to maintain the City's 11 shared yard facilities.

Service Improvements represent 85% or \$4.816 million of project funding allocated in the 2008 Recommended Capital Budget. Service Improvement projects, which are all IT initiatives, such as Business Sustainment and other strategic IT projects are to support management requirements and ensure integration between systems to improve business processes.

PART II: ISSUES FOR DISCUSSION**2008 Capital Budget Issues****Toronto Building eServices**

Toronto Building eServices is a new multi-year project over 5 years with a total project cost of \$2.491 million and a 2008 cash flow of \$0.431 million. It was not included as part of the 2007-2011 Approved Capital Plan. This project has been added to allow one stop electronic access to a wide range of Toronto Building Services which will result in better customer service. The project is fully funded from the Building Reserve Fund.

5-Year Capital Plan Issues**Transferring Ownership of Yards**

Major tenants at each yard location have been identified, with the goal of transferring ownership of the capital projects to the respective Program areas within Cluster B. This action is pending a decision on the corporate direction for facility management and budget responsibility.

Issues Referred to the Budget Process**Issues Referred to 2008 Capital Budget Process**

There are no issues referred to the 2008 Capital Budget Process for PPF&A.

Outstanding Issues from Prior Years

The goal of transferring ownership of capital projects to the respective Program areas and tenants of each of the yards continues to be a work in progress. A decision on the corporate direction for facility management and budget responsibility continues to remain pending.

Appendix 1

2008 Recommended Capital Budget; 2009 to 2012 Plan and 2013 to 2017 Estimates

Appendix 2

2008 Recommended Cash Flow & Future Year Commitments

Appendix 3
2008 Recommended Capital Projects
with Financing Details

Appendix 4

Reserve / Reserve Fund Review

(\$000s)

Reserve / Reserve Fund Name	Project / SubProject Name and Number	Projected Balance as of December 31, 2007	Proposed Withdrawals				
			2008	2009	2010	2011	2012
XR 1305 Building Division RF	Beginning Balance	\$4,480,000	\$4,480,000	\$4,049,000	\$3,689,000	\$3,249,000	\$2,589,000
	WES 907128-38 Toronto Building Services		(\$431,000)	(\$360,000)	(\$440,000)	(\$660,000)	(\$600,000)
	Total Proposed Withdrawals		(\$431,000)	(\$360,000)	(\$440,000)	(\$660,000)	(\$600,000)
TOTAL RESERVE FUND BALANCE AT YEAR-END		\$4,480,000	\$4,049,000	\$3,689,000	\$3,249,000	\$2,589,000	\$1,989,000