

Spring 2021 Supplemental Capital Budget Adjustment

Motions on the Floor

Moved B. Henderson - D. Iveson (Made at the December 9, 2020, City Council Budget Meeting - Capital Budget Amendment 1):

That Capital Profile CM-10-1010, be increased by \$3,700,000, to fund design up to Checkpoint 3 for the Rollie Miles Leisure Centre, with funding from

Pay-As-You-Go as follows:

2021: \$1,100,000

2022: \$2,600,000

Moved M. Banga - M. Nickel (Made at the December 9, 2020, City Council Budget Meeting - Capital Budget Amendment 4):

That capital profile #CM-99-9000, be increased by \$800,000 in 2021 to fund up to Checkpoint 4 for Parsons Road (19 Avenue - Ellerslie Road) 4 Lane Widening, with funding from Pay-As-You-Go.

Clerk's Note: Required action for Motions on the Floor

The Motions on the Floor may be withdrawn, approved, amended, replaced or defeated.

Recommendation

1. That adjustments to the 2019-2022 Capital Budget, as outlined in Attachment 3 of the June 7, 2021, Financial and Corporate Services report FCS00452, be approved.
2. That changes to estimated project completion dates based on scope changes as outlined in Attachment 8 of the June 7, 2021, Financial and Corporate Services report FCS00452, be approved.
3. That the scope of capital profile CM-66-3600 - Bus Fleet & Equipment Rehab and Replacement be changed to include the purchase of two hydrogen buses, to a maximum value of \$1.26 million, as outlined in Attachment 9 of the June 7, 2021, Financial and Corporate Services report FCS00452.

4. That single source agreement(s) for the purchase of two hydrogen buses, up to a maximum of \$1.26 million, be approved, and that the agreements be in form and content acceptable to the City Manager, including the selection of the vendor(s), as outlined in Attachment 9 of the June 7, 2021, Financial and Corporate Services report FCS00452.

Executive Summary

The Supplemental Capital Budget Adjustment (SCBA) is an integral component of the City Council approved multi-year approach for the 2019-2022 Capital Budget. It allows Council to adjust the capital budget in response to changing project needs, new funding opportunities and challenges, emerging issues, and changing priorities. The SCBA supports the City's financial management outcome of ensuring a resilient financial position, and enables both current and long-term service delivery and growth.

Administration has recommended a number of adjustments for Council's consideration, resulting in a net increase to the 2019-2022 Capital Budget for tax-supported operations of \$65.5 million, and a balance of \$20.1 million remaining in the corporate pool. Administration recommends the balance be held to address future budget challenges and funding needs.

The report also includes a recommended strategy for the estimated additional \$55.6 million in 2021 federal Gas Tax funds that addresses current pressures and saves for future needs. While funding has been announced, Administration does not have an agreement in place to receive these funds.

The recommendations made in this report do not propose funding for the two Motions on the Floor brought forward from the December 9, 2020, City Council Budget Meeting. Funding for these projects would result in additional impacts to the 2019-2022 Capital Budget and corporate pool.

City Council approves adjustments to the Waste Services and Blatchford Renewable Energy Capital Budgets with decisions on separate reports. The Blatchford Renewable Energy Spring Capital Budget Adjustment was presented to Utility Committee on April 30, 2021 in report IIS00496. The Waste Services Spring Capital Budget Adjustment will be presented to Utility Committee on June 25, 2021.

Report

2019-2022 Capital Budget Approved to Date

Council has approved \$9.86 billion in capital spending as part of the 2019-2022 capital budget cycle prior to adjustments proposed in the Spring 2021 SCBA. The total includes \$7.36 billion of approved capital spending over the period of 2019 to 2022,

and \$2.49 billion in 2023 and beyond. The approved capital budget is distributed across the City as follows: Tax-Supported Operations (\$9.60 billion), Waste Utility (\$215.4 million), Blatchford District Energy Utility (\$16.7 million) and Downtown District Energy Utility (\$28.2 million).

Attachment 1 provides the currently approved 2019-2022 Capital Budget and the impacts of the recommended Fall 2020 SCBA adjustments.

Recommended Spring 2021 SCBA Adjustments

Category (\$millions)	Total Budget Requests	Less: Funded with Transfers (from)/to Existing Profiles	Net Impact to Capital Budget
New Profiles Recommended for Funding	\$ 688.8	\$ (640.9)	\$ 47.9
Scope Change - Increases	1.4	(0.6)	0.8
Scope Change - Decreases	(1.1)	0.3	(0.8)
Recosting - Increases	22.3	(9.9)	12.4
Recosting - Decreases	(18.1)	18.0	(0.1)
Other Adjustments (Historical, Transfers)	5.3	-	5.3
Total Spring 2021 SCBA Adjustments	\$ 698.6	\$ (633.1)	\$ 65.5

The recommendations in the Spring 2021 SCBA would result in an overall \$65.5 million increase to the approved capital budget. Supplemental capital budget adjustments requiring Council approval are identified by category in the table above. A summary of the budget adjustments in each category is provided in Attachment 2, and the detailed adjustments for Council approval are in Attachment 3. New profiles recommended for funding are included in Attachment 4.

Status of Available Capital Funding and Recommendations for Use

The City’s corporate funding pool consists of the following capital funding sources:

- Neighbourhood Renewal Program tax levy
- Municipal Sustainability Initiative (MSI) grant funding
- Pay-As-You-Go (PAYG)
- Federal Gas Tax grant funding

Available Capital Funding Prior to Spring 2021 SCBA Recommendations

Corporate Funding Pool - Changes in Available Funding Prior to Proposals in the Spring 2021 SCBA (\$millions)	Corporate Funding Pool Balance/(Deficit)
Funding Remaining as at Fall 2020 SCBA	\$ (7.8)
Adjustments to Funding Since Fall 2020 SCBA:	
2020 Year-End Funding Releases and Other Adjustments	15.6
2021 Federal Gas Tax - One-Time Increase (Estimate)	55.6
2021/2022 MSI Reduction - Alberta 2021 Budget	(31.9)
Release of Previously held Funds	32.9
Funding Available Prior to Consideration of Spring 2021 SCBA	\$ 64.4

At the conclusion of Council deliberations at the Fall 2020 SCBA, the corporate funding pool was in a deficit balance of \$7.8 million.

Adjustments since comprise \$15.6 million of year-end funding releases and other adjustments, and a one-time increase to the City’s 2021 federal Gas Tax funding estimated to be \$55.6 million. The corporate funding pool also decreased by \$31.9 million due to a funding reduction to the Municipal Sustainability Initiative (MSI) program announced in the Alberta 2021 Budget. Administration responded to the cut by releasing \$32.9 million of funding back to the corporate pool that had previously been held to address future budget challenges. This was funding that was originally allocated to projects that ultimately moved forward with provincial Municipal Stimulus Program funds, as approved by City Council on September 21, 2020, in recognition that future MSI reductions were likely (report FCS00080). Prior to considerations in the Spring 2021 SCBA, the corporate funding pool has an unallocated balance of \$64.4 million.

Federal Gas Tax Strategy

On March 25, 2021, the federal government announced a one-time doubling of the Gas Tax funds in 2021, which is being renamed the Canada Community-Building Fund. The estimated additional funding to be received by the City in 2021 is \$55.6 million. At the time of writing this report, the actual amount of funding to be received has not been confirmed through agreement.

Administration is proposing the following three-part strategy for the additional Gas Tax funds of \$55.6 million in 2021.

1. Fund existing budget pressures - \$17.3 million (Recommended)

Funding existing budget pressures enables the City to manage more immediate funding needs for items currently approved in the capital budget, or previously discussed with Council as priority needs. This would include funding for Keswick East and West School Park Site Development (\$5.4 million), and cost increases related to the Stadium LRT upgrade (\$11.9 million).

These recommended adjustments are included in Attachment 3 as a part of Recommendation 1.

2. Hold to address emerging items - \$26.7 million (Recommended)

Holding a portion of the funding for specific emerging items allows the City to manage anticipated future budget pressures for items currently approved in the capital budget. This includes additional costs related to the 50 Street Grade Separation Project, the 170 Street Footbridge, and the City's anticipated contribution towards the Northeast River Crossing Pedestrian Bridge. The costs are based on best estimates to date and will be refined as further detailed design work is completed. Grant eligibility restrictions may result in the need to apply the Gas Tax funding towards other eligible projects in the currently approved capital budget. These reallocations allow unconstrained funding to then be applied towards these projects.

The proposal to hold a portion of the additional Gas Tax funds to address future capital project funding needs is reflected in Attachment 5 (Corporate Funding Pool Balances). Further details on emerging items are included in Attachment 6.

3. Hold to address future budget needs and challenges - \$11.6 million (Recommended)

It is anticipated that there will be significant budget challenges in 2022 and continuing into the 2023-2026 budget cycle due to the pandemic's impact on the City's operating budget, as well as previously announced reductions to provincial capital funding (Municipal Sustainability Initiative Program and the Local Government Fiscal Framework). The objective is to hold the remaining unallocated balance in the corporate pool to be able to address future budget needs and challenges.

The federal Gas Tax is a fairly flexible funding source that can fund many of the City's capital infrastructure needs, supporting the rationale of holding these funds to address future budget needs in this time of uncertainty. With the Gas Tax being such a flexible funding source, it can be used to fund existing approved capital projects resulting in available unconstrained capital funding (i.e., pay-as-you-go). Unconstrained funding can be used to address various budget needs and challenges, including funding future

priority infrastructure investments, being leveraged for any City matching contributions that may be required for grants announced in the recent federal budget, as well as using unconstrained capital funding to support operating budget challenges.

Administration continues to assess the impact of the COVID-19 pandemic on the 2022 operating budget. For reference, the pandemic’s combined impact on the City’s 2020 and 2021 operating budget was over \$300 million. Based on provincial estimates, the reduction to provincial capital funding in 2023 and 2024 is estimated to be \$120 million.

The City of Edmonton did not reduce its capital program in the current budget cycle as a result of the pandemic in an effort to support jobs and the economy in line with the efforts of other orders of government.

The remaining Gas Tax funds should be held to address these upcoming budget challenges and mitigate the impacts to operating and capital budgets, as a fiscally responsible measure.

Available Capital Funding Subsequent to Spring 2021 SCBA Recommendations and Proposed Use of Gas Tax Funds

Corporate Funding Pool - Available Funding Subsequent to Proposals in the Spring 2021 SCBA (millions)	Corporate Funding Pool Balance/(Deficit)
Funding Available Prior to Consideration of Spring 2021 SCBA	\$ 64.4
Proposed use of 2021 Additional Federal Gas Tax Funds:	
1. Fund existing pressures <i>(Stadium LRT upgrade, school site park development)</i>	(17.3)
2. Hold to address future emerging items <i>(50 Street grade separation, Northeast pedestrian bridge, 170 Street pedestrian bridge)</i>	(26.7)
Other adjustments	(0.3)
Funding Available Subsequent to Consideration of Spring 2021 SCBA (Recommend to hold for future budget needs and challenges)	\$ 20.1

The total funding remaining in the corporate pool after considering all adjustments recommended in the Spring 2021 SCBA, as well as the recommended use of the federal Gas Tax funds (priorities 1 - 3 above), is \$20.1 million comprised of:

- \$13.1 million in federal Gas Tax (including the \$11.6 million suggested to be held as priority 3 above, plus \$1.5 million of higher than anticipated Gas Tax funds received in 2020);

- \$3.0 million in Neighbourhood Renewal Funds; and
- \$4.0 million in pay-as-you-go funding.

The recommendation is that this funding remains unallocated and available for future emerging items.

4. Alternate Option - Fund other requests - up to \$20.1 million (Not Recommended)

As an alternative if Council chooses, the available funding in the corporate pool could be used for other priorities.

At Council's direction, Administration can return with capital project recommendations using the funding remaining in the corporate pool, or a portion of it, to meet Council's identified priorities.

On August 27, 2019, the City of Edmonton declared a climate emergency with the objective to reduce the City's emissions guided by the Energy Transition Strategy. On April 19, 2021, City Council approved the Community Energy Transition Strategy. Given the declared emergency, the priorities put forward may be capital investment in projects that result in a reduction in the City's overall greenhouse gas emissions, including but not limited to building retrofits and solar photovoltaics.

If Council chooses this option, the following should be considered:

- Administration continues to work with the federal government to understand details and timelines related to recently announced federal grant programs. Some of these grants may be well suited to fund energy transition projects (and may require matching funds). Federal program details are not yet developed.
- Use of Gas Tax funds limits the City's ability to provide matching funds to maximize future grants.
- Without sufficient funds in the corporate pool, the City may not be able to respond to upcoming budget challenges. This could result in actual reductions to capital and operating budgets, potentially impacting services and capital investment.

In accordance with Policy *C595A Neighbourhood Renewal Program*, Neighbourhood renewal funds are limited to operating and capital expenditures related to the renewal of neighbourhood residential, industrial and commercial collector, local and alley road right of way surface assets. Use or redirection of these funds for any other purpose (e.g., offsetting other budget challenges) would be a policy amendment and as such, in accordance with the policy, a non-statutory public hearing must be held.

The recommendation to hold the remaining balance of the Gas Tax funds, and a detailed reconciliation of the adjustments and recommended changes to the corporate funding pool are shown in Attachment 5.

Supportive Modular Housing

In October 2020, the City was provided \$17.3 million through the federal Rapid Housing Initiative (RHI) program for the construction of affordable supportive housing. City Council approved this funding for support housing needs on November 16, 2020. Late in December 2020, the City received a second payment of \$17.8 million through the RHI program.

The Spring 2021 SCBA recommends that the total RHI funding of \$35.1 million, be combined with \$16.4 million in Municipal Program Stimulus grant funding, and pay-as-you go funding of \$28.3 million reallocated from the existing Affordable Housing Land Acquisition and Site Development composite profile (19-90-4100) for a total of \$79.8 million for five modular supportive housing projects: Inglewood, King Edward Park, McArthur, Terrace Heights and Westmount. The \$28.3 million reallocation from the existing Affordable Housing Land Acquisition and Site Development profile is required due to higher than anticipated costs to deliver these projects. Any funds that are not required will be returned to the composite profile.

The specific budget adjustments are summarized in Attachment 2, with further details in Attachment 3. The five new capital profiles are included in Attachment 4.

Emerging Items

Emerging items (Attachment 6) include projects that Council has previously approved and funded, but may require additional funding within the 2019-2022 cycle. Also included are projects that require funding in the future to address an urgent need. Amounts represent Administration's best estimate at this time. Administration recommends a portion of the 2021 additional federal Gas Tax funds be held to address these future budget needs.

Unfunded Capital Project List

On June 4, 2019, City Council passed a motion directing Administration to include a list of all unfunded capital profiles (presented as part of the 2019-2022 Capital Budget) for future SCBA reports. At the July 2, 2019, City Council meeting, Administration also committed to apply a prioritization lens to the unfunded project list. The Unfunded Project List is in Attachment 7.

Projects are included from the original list presented to Council during budget deliberations and any other unfunded projects since that time. The list also includes each unfunded project's current checkpoint status, and the checkpoint these projects were funded to in the original budget. In accordance with the Project Development and Delivery Model, projects that have reached Checkpoint 3 have completed planning and design work. The projects have been prioritized based on high-level operational

criteria scoring methodology, resulting in low, medium, or high operational criteria ranking. Administration is not recommending funding for any of the projects on this list.

For the 2023-2026 proposed capital budget all capital projects will be prioritized using the City's Priority Based Budgeting process.

Changes to Estimated Completion Dates

With Recommendation 2, Administration is proposing changes to the estimated completion date of the Recreation and Attractions Management (RAMS) Program capital profile. This change is based on Council having approved significant scope changes in previous supplemental capital budget adjustments after the original completion dates were set. Attachment 8 provides details.

Hydrogen Bus Initiative

With Recommendation 3 and 4, Administration is seeking Council's approval to change the scope of the bus fleet capital profile CM-66-3600 by repurposing funds to contribute towards the purchase of two hydrogen fuel buses and enter into related agreements. This would allow Administration to proceed with the Hydrogen Bus pilot program. Details of the proposal are outlined in Attachment 9.

Public Engagement

Administration delivered operating and capital engagement events as part of the original 2019-2022 operating and capital budgets development and approval process in 2018, and non-statutory public hearings were held for each of the Fall Supplemental Capital Budget Adjustments in 2019 and 2020.

Residents will have the opportunity to address City Council directly during non-statutory Public Hearings in Fall 2021 before consideration of the Fall 2021 Supplemental Capital Budget Adjustment.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Adjustments to the approved Capital Budget are balanced/funded and within policy	Total Projected Corporate Capital Funding Balance	\$20.1 million (Projected results at the end of 2019-2022, pending approval of the Spring 2021 SCBA recommendations)	All funding balances are targeted to be greater than \$0 as a demonstration of flexibility to fund future emerging items within policy.

Attachments

1. Impact Summary
2. Summary of Spring 2021 SCBA Recommendations
3. Spring 2021 SCBA Budget Adjustment Requests: Council
4. New Profiles Recommended for Funding
5. Corporate Funding Pool Balances - 2019-2022 Capital Budget Cycle
6. Emerging Items - Spring 2021 (Unfunded)
7. Unfunded Project List
8. Changes to Estimated Completion Dates
9. Hydrogen Bus Initiative

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- K. Armstrong, Deputy City Manager, Employee Services
- R. Smyth, Deputy City Manager, Citizen Services
- S. McCabe, Deputy City Manager, Urban Planning and Economy
- K. Fallis-Howell, Acting City Solicitor