

FALL 2021 SUPPLEMENTAL CAPITAL BUDGET ADJUSTMENT

2019-2022 Capital Budget

RECOMMENDATION

That adjustments to the 2019-2022 Capital Budget, as outlined in Attachment 3 of the November 22, 2021, Financial and Corporate Services report FCS00818, be approved.

Report Purpose

Council decision required

Council is being asked to approve adjustments to the 2019-2022 Capital Budget as outlined in Attachment 3, and to select an option for how to proceed with the Coronation Park Sports and Recreation Centre project.

Previous Council/Committee Action

At the December 9, 2020, City Council meeting, the following motion passed:

That the Coronation Community Recreation Project in Capital Profile 15-21-5801 proceed up to checkpoint 4, as outlined in the “Scenario 2 - Build to Program” option of the August 31, 2020, Integrated Infrastructure Services report CR_7047 - Coronation Community Recreation Centre Project - Design Progress Update, for completion of design work to a tender ready status and report back at the Fall 2021 Supplemental Capital Budget Adjustment.

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 twice a year, in the fall and spring, to accommodate changes required as a result of the Capital Governance Policy C591 - Project Development and Delivery Model (PDDM), and 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.

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- Administration has recommended a number of adjustments as part of the SCBA resulting in a net increase to the 2019-2022 Capital Budget for tax-supported operations of \$216.8 million.
- Administration is providing information requested by Council on the Coronation Park Sports and Recreation Centre project. For this project to proceed, Council must choose between two options. Option 1 is to approve a \$41.1 million dollar budget increase to the project so that it can proceed to delivery. Option 2 is to defer the project, and release all of the uncommitted funding currently approved in the delivery budget from the approved capital profile.
- City Council approves adjustments to the Waste Services and Blatchford Renewable Energy capital budgets in separate reports that are routed through Utility Committee.

REPORT

On December 14, 2018, City Council approved the 2019-2022 Capital Budget in accordance with the Multi-year Budgeting Policy (C578) and the Capital Project Governance Policy (C591), which requires that all capital projects (infrastructure, fleet and equipment, information technology and land) follow the Project Development and Delivery Model (PDDM).

A large majority of the adjustments brought forward within the spring and fall Supplemental Capital Budget Adjustment process are PDDM adjustments to transfer approved funding between composite and standalone capital profiles, without increasing the overall capital budget. Additional information related to the PDDM is provided in Attachment 8. In addition, the SCBA allows for Administration to bring forward other recommended adjustments to the capital budget for reasons such as:

- New funding opportunities and challenges
- Emerging issues
- Changing priorities

2019-2022 Capital Budget Approved to Date

Council has approved \$11.05 billion in capital spending as part of the 2019-2022 capital budget cycle prior to adjustments proposed in the Fall 2021 SCBA. The total includes \$7.50 billion of approved capital spending over the period of 2019 to 2022, and \$3.55 billion in 2023 and beyond. The approved capital budget is distributed across the City as follows:

- Tax-Supported Operations (\$10.77 billion),
- Waste Services Utility (\$232 million),
- Blatchford District Energy Utility (\$25 million) and
- Downtown District Energy Utility (\$28 million).

Attachment 1 provides the currently approved 2019-2022 Capital Budget and the impacts of the recommended Fall 2021 SCBA adjustments.

Recommended Fall 2021 SCBA Adjustments by Category

Adjustments being recommended in the Fall 2021 SCBA are within the following categories:

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- New Profiles Recommended for Funding - Adjustments where a new capital profile is being brought forward for Council approval. Most new profiles are related to the PDDM model; they are for projects that were previously approved within a composite capital profile that have now reached Checkpoint 3 of the PDDM and require approval within their own standalone capital profile. All renewal projects greater than \$5 million and all growth projects greater than \$2 million require Council approval within a standalone capital profile.
- Scope Change Adjustments - Adjustments where a new element or component is being recommended for addition to the original approved capital profile. Scope changes can be funded with transfers from existing approved composite capital profiles or require a new funding source to proceed.
- Recosting Adjustments - Adjustments that are required when an approved capital project is projected to be over or under budget. This can occur when tenders on capital projects differ from the original approved budget. When new capital profiles are created at Checkpoint 3 of the PDDM, they are based on a cost estimate of -20/+30 per cent. Recosting adjustments reflect the variances in this range of estimate, and are mostly funds transferring back and forth between composite and standalone capital profiles.
- Transfers Between Profiles - Adjustments where funding greater than \$5 million is being transferred between two previously approved capital profiles for a reason other than a scope or recosting change. Some transfers that are under \$5 million are also included within this category due to the type of funding source or additional transparency, as deemed necessary.

The following table summarizes the total budget requests in the Fall 2021 SCBA by category:

Category (\$millions)	Total Budget Requests	Less: Funded with Transfers (from)/to Existing Profiles	Net Impact to Capital Budget
New Profiles Recommended for Funding	\$311.7	(\$178.7)	\$133.0
Scope Change - Increases	19.2	(11.3)	7.9
Recosting - Increases	98.8	(2.8)	96.0
Recosting - Decreases	(26.5)	6.4	(20.1)
Transfers between profiles	43.8	(43.8)	-
Total Fall 2021 SCBA Adjustments	\$447.0	(\$230.2)	\$216.8

The recommendations in the Fall 2021 SCBA would result in an overall \$216.8 million increase to the approved capital budget. Individual adjustments to the SCBA identified by category in the table above are summarized within Attachment 2.

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The most significant adjustments within the overall \$216.8 million net impact to the capital budget are as follows:

- Pre-approval of 2023-2026 Capital Funding for Phased Projects - \$128.4 million (within New Profiles Recommended for Funding)

There are five new capital profiles being brought forward for approval that are requesting new funding from the 2023-2026 capital budget cycle to fund expenditures in those years. These projects (summarized in Table 1b of Attachment 2) are the Edmonton EXPO Centre Rehabilitation, Edmonton Convention Centre Rehabilitation, Kinsmen Sports Centre Facility Rehabilitation, Edmonton Police Service Headquarters Rehabilitation and the Latta Bridge Replacement. These projects are requesting a total combined budget approval of \$213.2 million. Of this total amount \$84.8 million in funding is recommended from transfers from existing profiles within the 2019-2022 capital budget and the remaining \$128.4 million relates to anticipated expenditures in 2023 and beyond that would require a pre-commitment of projected available capital funding. Approval will result in a net increase to the overall City's approved capital budget.

By committing future budget cycle dollars to fund the entirety of these projects now, various benefits can be achieved. These include improved continuity and integrity of project resourcing and contracts, fewer facility service distributions, and scheduling, project management and cost efficiencies. Further details are provided in Attachment 2.

- Neighbourhood Renewal Program Funding Adjustment - \$54.2 million (within Recosting Increases)

This funding adjustment is to add \$54.2 million of Neighbourhood Renewal Reserve funding to composite profile "CM-25-0000 - Transportation: Neighbourhoods - Renewal." This adjustment is primarily needed to add back funding that had previously been approved within this composite capital profile in the 2019-2022 capital budget cycle, but was transferred to various standalone capital profiles for 2023 and beyond in previous SCBA reports. Administration is now recommending that this funding be added back to the 2019-2022 composite profile. Neighbourhood renewal expenditures approved for 2023 and beyond should be funded with a pre-commitment of neighbourhood renewal reserve funding from the next budget cycle. This is in line with how the program has previously been managed, and results in a more effective use and cash flow of neighbourhood renewal reserve funds.

- 50 Street CPR Grade Separation - \$42.4 million (within Recosting Increases)

This recosting adjustment is required to fully fund the "50 Street CPR Grade Separation" project so it can proceed to the delivery phase. The request for \$42.4 million of additional budget is based on the latest estimate provided nearing completion of checkpoint 4 ("Design") for the project. Specific estimate increases relate to increased land costs, utility relocations and the added complexities of working near the CP Rail

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Yard. Administration is having discussions with the federal government to have the \$42.4 million increase required for this project be partially offset with additional federal funding. Administration is recommending that the \$42.4 million budget increase be funded entirely with new tax-supported debt. Once the outcome of the grant discussions is known, Administration will reduce the total \$42.4 million of additional tax-supported debt by the amount of any additional federal funding received.

The detailed adjustments for Council approval are in Attachment 3. The complete list of new profiles and the related capital profile reports 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:

- Municipal Sustainability Initiative (MSI) provincial grant funding
- Pay-As-You-Go (PAYG)
- Federal Gas Tax grant funding

Available Capital Funding Prior to Fall 2021 SCBA Recommendations

The following table outlines changes in available funding prior to the recommendations included in the 2021 Fall SCBA:

	Corporate Funding Pool Balance/(Deficit) (\$million)
Funding Remaining as at Spring 2021 SCBA	\$ (6.4)
Adjustments to Funding Since Spring 2021 SCBA:	
New projects funded (170 Street Pedestrian Bridge - \$7.5M, Air Services Opportunity Fund - \$3.5M)	(11.0)
Other forecast adjustments	1.1
Funding Available Prior to Consideration of Fall 2021 SCBA	\$ (16.3)

At the conclusion of Council deliberations at the Spring 2021 SCBA, the corporate funding pool was in a deficit balance of \$6.4 million. This balance consisted of deficit balances for MSI (-\$4.9 million) and PAYG (-\$41.3 million), and a positive balance of Federal Gas Tax funding (+\$39.8 million). The \$41.3 million deficit PAYG balance was largely due to the use of \$46.5 million in PAYG to help offset 2020/2021 financial impacts of COVID-19. The positive Federal Gas Tax funding balance consisted of funding that was received as part of the one-time top up announced on March 25, 2021. Administration made the recommendation in the Spring 2021 SCBA to hold this funding to address future emerging items and budget pressures over the remainder of this budget cycle.

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Adjustments to the corporate pool since the Spring 2021 SCBA consist of an \$11.0 million decrease to fund two new projects approved by Council identified in the table above, and a \$1.1 million increase as a result of forecast adjustments to funding. The result is a deficit balance in the corporate funding pool of \$16.3 million prior to consideration of the recommendations in the Fall 2021 SCBA.

Available Capital Funding Subsequent to Fall 2021 SCBA Recommendations

Corporate Funding Pool - Available Funding Subsequent to Proposals in the Fall 2021 SCBA (millions)		Corporate Funding Pool Balance/(Deficit)
Funding Available Prior to Consideration of Fall 2021 SCBA		\$ (16.3)
Proposed use of Corporate Pool Funding:		
1. Fund new items (Pay-as-you-go) <i>(Employee relocation item, CS00681 - Major Event Update item, Kihciy Askiy, Other Adjustments)</i>	(8.9)	
2. Hold to swap (Federal Gas Tax) <i>(50 Street grade separation, Other)</i>	(30.3)	
Funding Balance Subsequent to Fall 2021 SCBA Recommendations		(\$55.5)
Deficit Funding Strategies:		
1. Pre-commitment of 2023 Pay-As-You-Go	46.5	
2. 2021 investment earnings - portion of forecasted increase	9.0	
Revised Funding Balance After Consideration of Deficit Strategies		\$ -

Administration is recommending using \$8.9 million of PAYG funding and \$30.3 million of Federal Gas Tax grant funding for items noted in the table above. The total corporate funding pool would be in a deficit balance of \$55.5 million after consideration of these recommendations.

Funding Strategy - Corporate Pool Deficit

The \$55.5 million deficit balance in the corporate pool is offset by two amounts. First, at the time of approving \$46.5 million of PAYG funding to offset the budget impacts of COVID, Council also approved pre-committing \$46.5 million of PAYG funding from the 2023 capital budget to balance the PAYG fund. The result is that the 2023 capital budget will have \$46.5 million less PAYG funding available for new projects in the next capital budget cycle. When factoring in this \$46.5 million pre-commitment of 2023 funding, the Corporate funding pool is still left in a \$9.0 million deficit balance. Administration is projecting \$29.3 million greater than budgeted investment earnings for 2021. In line with the budget principle to use investment earnings to fund capital projects, the additional investment earnings will be transferred to the PAYG Reserve at year-end. As a result, Administration is recommending that the PAYG funds be overspent by \$9.0 million to provide

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funding for recommendations in this SCBA. The entire amount of actual additional investment earnings will be transferred to the PAYG reserve at year-end, putting the reserve back in a positive balance.

Additional greater than anticipated investment earnings in this budget cycle could be used to replenish the overcommitment of the PAYG funding as a result of the COVID strategy discussed above. This would result in less reimbursement of PAYG funding from the 2023 capital budget. Administration will return with more details and recommendations related to this approach through the Spring 2022 SCBA.

Coronation Park Sports and Recreation Centre

In the August 31, 2020, Integrated Infrastructure Services report “CR_7047 - Coronation Community Recreation Centre Project - Design Progress Update,” Administration presented two scenarios for how to proceed with the Coronation Park Sports and Recreation Centre project. A decision on these scenarios was required to complete the design process:

- Scenario 1 (“Build to Budget”) required the program and design to be adjusted to fit the original approved budget of \$112.3 million.
- Scenario 2 (“Build to Program”) would continue on the path of the original approved design and program, but would require a budget increase (estimated to be \$36 million) to deliver the project.

At the December 9, 2020, City Council meeting, Administration was directed to proceed up to checkpoint 4 of the Project Development and Delivery Model for the Coronation Community Recreation Project under the “Scenario 2 - Build to Program” option, and to report back at the Fall 2021 SCBA.

The project is now at checkpoint 4. Administration has provided two options for Council’s consideration:

Option 1 - Approve \$41.1 Million Budget Increase and Proceed to Delivery

To proceed to the delivery phase, a budget increase of \$41.1 million is required. Additional funding would be in the form of tax-supported debt (the impacts of this debt are discussed later in this report).

Option 2 - Do Not Approve \$41.1 Million Budget Increase, Defer Project and Release Funding

The project would remain at checkpoint 4, and all uncommitted delivery funding would be released. The project would be reconsidered as part of the overall prioritization process for the 2023-2026 capital budget.

Additional detail on both options presented is included in Attachment 6.

Tax-Supported Debt

Two of the items noted earlier in this report would result in additional tax-supported debt should Council choose to advance them:

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Projects with Debt Implications (millions)	Impact to Tax-Supported Debt
<u>Recommended within Fall 2021 SCBA (Attachment 3; Recommendation 1)</u>	
50 Street CPR Grade Separation (Recosting Increase)	\$42.4
<u>Council Decision Required (Attachment 6)</u>	
Coronation Park Sports and Recreation Centre (Recosting increase)	\$41.1
Total Maximum Increase to Tax-Supported Debt	\$83.5

The total maximum increase to the City's tax-supported debt for the two adjustments noted in the table above is \$83.5 million. The estimated new debt servicing costs per year for this new debt would be \$5.2 million per year. If Council approves these projects with funding through tax-supported debt, the new debt servicing costs would not start until 2023 due to planned construction timelines and required borrowing, and would not impact the City's 2022 operating budget. The annual debt servicing impacts would be included in the 2023-2026 proposed operating budget as operating impacts of capital.

As noted earlier in the report, Administration will reduce the tax-supported debt for the 50 Street Grade Separation should the federal government agree to fund a portion of the cost.

Administration is also recommending \$30.3 million of Gas Tax funding from the corporate pool be held and used to address existing budget pressures. Depending on the outcome of the 50 Street Grade Separation, funding discussions and Council's decision on the Coronation Park Sports and Recreation Centre project, the \$30.3 million could be used to further offset additional tax-supported debt required for either of these projects.

Administration will provide an update at the Spring 2022 Supplemental Capital Budget Adjustment regarding final funding allocations based on the outcome of the 50 Street Grade Separation discussions and Council's decision on whether to proceed on the construction of the Coronation Park Sports and Recreation Centre project.

Emerging Items

The 'Emerging Items' attachment in each SCBA will include projects Council has previously approved and funded, but may require additional funding within the 2019-2022 cycle. The category also includes projects that require funding in the future to address an urgent need. Amounts represent Administration's best estimate at the time of the SCBA.

Currently, one project, the Edmonton-Strathcona County Pedestrian Bridge project, is discussed as an emergent item in Attachment 7.

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COMMUNITY INSIGHT

Administration delivered operating and capital engagement events as part of the development of the original 2019-2022 operating and capital budgets 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 the non-statutory Public Hearing for the Fall 2021 Supplemental Capital Budget Adjustment on November 29, 2021.

GBA+

While the overall 2019-2022 budget was developed with equity principles in mind, the full application of GBA+ has been a work in progress. The adjustments recommended in this report are put forward in consideration of the priorities of ConnectEdmonton and The City Plan, which were developed after hearing from a diverse and representative sample of Edmontonians. The GBA+ approach was applied to ensure over 10,000 Edmontonians, including a variety of identity intersectionalities (such as income, education, housing, family dynamics) were able to participate.

In the context of capital infrastructure planning, design and delivery, the following provides some examples of its application:

- In planning and design, Administration and consultants endeavour to research and address three fundamental GBA+ questions within their designs: Who is excluded or differentially impacted? What contributes to this exclusion or impact? What will we do about it?
- Designs are reviewed from multiple perspectives including but not limited to race, colour, place of origin, ethnicity, immigration status, language, religious beliefs, gender, gender identity, and gender expression, appearance, physical and mental disability, political viewpoint, marital and family status, occupation, source of income, employment status, sexual orientation, age, poverty and homelessness.
- For renewal work, a detailed GBA+ is commonly initiated during the planning and design phases of a project. GBA+ analysis is conducted to identify stakeholders through the development of public engagement plans and identify meaningful ways of connecting with those stakeholders to gather input that will help shape the plans. The process supports Administration in identifying any stakeholders who may be interested or impacted by the project and those who may be less likely to participate in traditional engagement methods.

ATTACHMENTS

1. Impact Summary
2. Summary of Fall 2021 SCBA Recommendations
3. Fall 2021 SCBA Budget Adjustment Requests: Council
4. New Profiles Recommended for Funding
5. Corporate Funding Pool Balances - 2019-2022 Capital Budget Cycle
6. Coronation Recreation Centre - Options
7. Emerging Items - Fall 2021 (Unfunded)

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8. Project Development and Delivery Model Overview