COUNCIL REPORT

SPRING 2022 SUPPLEMENTAL CAPITAL BUDGET ADJUSTMENT

2019-2022 Capital Budget

RECOMMENDATION

That adjustments to the 2019-2022 Capital Budget, as outlined in Attachment 3 of the June 7, 2022, Financial and Corporate Services report FCS01144, be approved.

Report Purpose

Council decision required.

Council is being asked to approve adjustments to the 2019-2022 Capital Budget.

Amendment on the Floor

Moved M. Janz - A. Paquette (made at the November 30, 2021, City Council Budget Meeting - Capital Budget Amendment 8):

> That capital profile "CM-20-2020 - Transportation Planning and Design Composite", be increased by $525,000 in 2022, with funds from Pay-As-You-Go, for planning and design of Transit Priority Measures, including some or all of the following:
>
> - 97 Street (107 to 118 Ave NW)
> - 101 Street (Kingway to Jasper Avenue)
> - Jasper Avenue (109 Street to 95 Street)
> - 97 Avenue Westbound toward 109 Street
> - Mill Woods on Hewes Way.

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 spring and fall, 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.

- 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 $134.7 million.
- The main factors of this recommended increase include: new funding for neighbourhood renewal projects ($48.1 million), southeast transit bus garage land acquisition ($45 million), Rainbow Valley bridges renewal/widening ($19.5 million) and vehicle and equipment replacement ($12.6 million).
- 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 6. 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; and
- Changing priorities.

2019-2022 Capital Budget Approved to Date

Council has approved $11.67 billion in capital spending as part of the 2019-2022 capital budget cycle prior to adjustments proposed in the Spring 2022 SCBA. The total includes $7.30 billion of approved capital spending over the period of 2019-2022, and $4.37 billion in 2023 and beyond. The approved capital budget is distributed across the City as follows:

- Tax-Supported Operations ($11.38 billion);
- Waste Services Utility ($234 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 Spring 2022 SCBA adjustments.

Recommended Spring 2022 SCBA Adjustments by Category

Adjustments being recommended in the Spring 2022 SCBA are within the following categories:

Spring 2022 Supplemental Capital Budget Adjustment - 2019-2022 Capital Budget

- 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, for projects 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 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 between composite and standalone capital profiles.
- Historical Adjustments - Adjustments required when there is a change in funding source in past years that impacts the overall budget of a profile. This can happen when the City receives partnership funding, grant funding, or developer financing towards a project in the previous year.
- 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 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 Spring 2022 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	$108.5	($59.7)	$48.8
Scope Change - Increases	81.4	(7.6)	73.8
Recosting - Increases	44.8	(31.8)	13.0
Recosting - Decreases	(39.5)	39.4	(0.1)
Historical Adjustments	(0.8)	-	(0.8)
Transfers between profiles	60.0	(60.0)	-
Total Spring 2022 SCBA Adjustments	**$254.4**	**($119.7)**	**$134.7**

Spring 2022 Supplemental Capital Budget Adjustment - 2019-2022 Capital Budget

The recommendations in the Spring SCBA would result in an overall $134.7 million increase to the approved capital budget. Individual adjustments to the SCBA identified by category in the table above are summarized in Attachment 2.

The most significant adjustments within the overall $134.7 million net impact to the capital budget are as follows:

- Pre-approval of New Funding for Neighbourhood Renewal Projects - $48.1 million (within New Profiles Recommended for Funding)

  Two new Neighbourhood Renewal Program capital profiles being brought forward for approval - Pleasantview and Killarney. The total value of these profiles is $86.4 million, of which $48.1 million relates to a precommitment of 2023-2026 Neighbourhood Renewal Reserve funding ($34.0 million), and new local improvement property tax share and partnership funding ($14.0 million).

  Neighbourhood renewal expenditures approved for 2023 and beyond should be funded with committed 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 the reserve.

- Southeast Transit Bus Garage Land Acquisition - $45.0 million (within Scope Changes)

  This scope change is required to fund the acquisition of land to advance to concept and preliminary design for the new southeast garage in "20-20-2022 - New Transit Bus Garage", which is a critical component to the implementation of the ETS Fleet Storage and Maintenance Facility Strategy. Additional details are provided in the June 7, 2022 Integrated Infrastructure Services report "IIS01208 - ETS Fleet Storage Facility Update and Land Acquisition".

- Rainbow Valley Bridges Renewal Project - $19.5 million (within Scope Changes)

  This scope change is required to allow for integration of the renewal work for the Rainbow Valley Bridges with the bridge widening included in the Terwillegar Drive Expressway Upgrade project. The total cost of this work is estimated to be $19.5 million and would be funded with tax-supported debt. This funding is required now to allow the preliminary construction activities to advance without unnecessarily extending the overall construction schedule or adding expense by having it advance separately.

- Vehicle and Equipment Replacement - $12.6 million (within Recosting)

  This recosting adjustment is required to fund $12.6 million of vehicle orders arriving in 2023. Due to supply chain issues, vehicle purchases require approximately a year of lead time, and therefore a pre-approval of 2023-2026 Fleet Services Replacement Reserve funding is being requested.

Spring 2022 Supplemental Capital Budget Adjustment - 2019-2022 Capital Budget

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)
- Canada Community-Building Fund (CCBF) grant funding (formerly the Federal Gas Tax Fund)

Available Capital Funding Prior to Spring 2022 SCBA Recommendations

The following table outlines changes in available funding prior to the recommendations included in the 2022 Spring SCBA:

	Corporate Funding Pool Balance/(Deficit) ($ million)
Funding Remaining as at Fall 2021 SCBA	($36.0)
Adjustments to Funding Since Fall 2021 SCBA:	
2021 Year end releases and other adjustments	69.3
2022 one-off budget adjustments approved by Council	(14.8)
Funding Available Prior to Consideration of Spring 2022 SCBA	**$18.5**

At the conclusion of Council deliberations at the Fall 2021 SCBA, the corporate funding pool was in a deficit balance of $36.0 million. This balance consisted of positive balances for MSI ($4.4 million) and CCBF ($30.3 million), and a deficit balance of PAYG (-$70.7 million). The $70.7 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 CCBF 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 Fall 2021 SCBA to hold this funding to partially offset the $83.5 million of additional tax-supported debt approved for the 50 Street CPR Grade Separation and Coronation Park Sports and Recreation Centre Projects.

Adjustments to the corporate pool since the Fall 2021 SCBA consist of a $69.3 million increase from 2021 year end adjustments and other adjustments, and a $14.8 million decrease for one-off budget adjustments approved by Council in 2022. The result is a positive balance in the corporate funding pool of $18.5 million prior to consideration of the recommendations in the Spring 2022 SCBA. An overview of Corporate Funding Pool balances is included as Attachment 5.

Spring 2022 Supplemental Capital Budget Adjustment - 2019-2022 Capital Budget

<u>Available Capital Funding Subsequent to Spring 2022 SCBA Recommendations</u>

Corporate Funding Pool - Available Funding Subsequent to Proposals in the Spring 2022 SCBA ($ millions)		**Corporate Funding Pool Balance/(Deficit)**
Funding Available Prior to Consideration of Spring 2022 SCBA		$18.5
Proposed use of Corporate Pool Funding:		
1. Fund new items (MSI and PAYG) *(Funding swap adjustments, E-Park machines credit card compliance, Other Adjustments)*	(9.1)	
2. Hold to swap (CCBF) *(50 Street grade separation,* Coronation Park Sports and Recreation Centre*)*	(35.5)	
Funding Balance Subsequent to Spring 2022 SCBA Recommendations		**($26.1)**
Deficit Funding Strategies:		
1. Precommitment of 2023 Pay-As-You-Go	46.5	
Revised Funding Balance After Consideration of Deficit Strategies (Returned to 2023 PAYG)		**$20.4**

Administration is recommending using $9.1 million of MSI and PAYG funding towards new items recommended in the Spring 2022 SCBA. In addition, Administration continues to recommend that the $35.5 million of available CCBF funding be held to partially offset the $83.5 million of additional tax-supported debt approved for the 50 Street CPR Grade Separation and Coronation Park Sports and Recreation Centre Projects at the Fall 2021 SCBA. The total corporate funding pool would be in a deficit balance of $26.1 million after consideration of these recommendations.

<u>Funding Strategy - Corporate Pool Deficit</u>

At the April 27, 2020, City Council meeting, Council approved a one-time $46.5 million decrease in the operating transfer to the PAYG Capital Reserve, to offset the financial effects of COVID-19, which, when approved, would have reduced the PAYG funds available for the 2023-2026 Capital Budget for new projects. However, at the end of the 2019-2022 Capital Budget Cycle, the City only requires $26.1 million of this pre-committed funding, due to higher investment returns and year-end release of unused funds. This leaves $20.4 million that can now be available in 2023-2026 Capital Budget for new capital needs.

Planning and Design of Transit Priority Measures - Motion on the Floor

The following motion made at the November 30, 2021, City Council Budget Meeting was deferred to the Spring 2022 SCBA, and remains on the floor:

Spring 2022 Supplemental Capital Budget Adjustment - 2019-2022 Capital Budget

That capital profile "CM-20-2020 - Transportation Planning and Design Composite", be increased by $525,000 in 2022, with funds from Pay-As-You-Go, for planning and design of Transit Priority Measures, including some or all of the following:

- 97 Street (107 to 118 Ave NW)
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The motion on the floor may be withdrawn, approved, amended, replaced or defeated. If approved, the Corporate Funding Pool would be reduced by an additional $525,000 of PAYG funding.

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:

Projects with Debt Implications ($ millions)	Increase to Tax-Supported Debt
Southeast Transit Bus Garage Land Acquisition (Scope Change)	$45.0
Rainbow Valley Bridge Renewal Project (Scope Change)	$19.5
Total Maximum Increase to Tax-Supported Debt	**$64.5**

The total maximum increase to the City's tax-supported debt for the two adjustments noted in the table above is $64.5 million. The estimated new debt servicing costs per year for this new debt would be $4.2 million per year, which would require a 0.2 per cent tax levy increase. 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.

COMMUNITY INSIGHT

Administration undertook public engagement in 2018 as part of the development and approval process for the 2019-2022 operating and capital budgets. Edmontonians also had the opportunity to share their perspectives for each of the Fall Supplemental Capital Budget Adjustments in 2019, 2020 and 2021. The overall budget, Administration's recommendations and Council's decisions were all informed by the priorities and opinions Edmontonians expressed during engagement and at the public hearings. The adjustments recommended in this report have also been guided by the priorities of ConnectEdmonton and The City Plan, which were developed through extensive engagement with Edmontonians.

GBA+

While the overall 2019-2022 budget was developed with equity principles in mind, 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 endeavor 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 be done about possible exclusion?
- 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+ analysis 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 Spring 2022 SCBA Recommendations
3. Spring 2022 SCBA Budget Adjustment Requests: Council
4. New Profiles Recommended for Funding
5. Corporate Funding Pool Balances - 2019-2022 Capital Budget Cycle
6. Project Development and Delivery Model Overview