

Spring 2020 Supplemental Capital Budget Adjustment

Motions on the Floor

Moved M. Banga – J. Dziadyk (Made at the December 11, 2019, City Council Budget meeting):

That capital profile #CM-30-3030 Open Space: Planning and Design - Growth be increased by \$40,000 (\$20,000 in 2020 and \$20,000 in 2021) and capital profile #CM-99-9000 Infrastructure Delivery - Growth be increased by \$360,000 (\$180,000 in 2021 and \$180,000 in 2022) with funds from Pay-As-You-Go, for planning, design, and delivery of Dog Parks near Summerside.

Moved T. Cartmell – T. Caterina (Made at the December 11, 2019, City Council Budget meeting):

That new capital profile #20-20-2023 be approved to fund planning and design of the 50th Street Park and Ride, with \$3,000,000 of funding from Pay-As-You-Go, be postponed to the Spring 2020 Supplemental Capital Budget Adjustment.

Recommendation

That adjustments to the 2019-2022 Capital Budget, as outlined in Attachment 3 of the May 25, 2020, Financial and Corporate Services report CR_8009, be approved.

Executive Summary

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

Administration has recommended a number of adjustments for Council's consideration that impact both the available capital funding and the 2019-2022 Capital Budget. The

recommended adjustments would result in a net decrease to the 2019-2022 Capital Budget for tax-supported operations of \$1.0 million.

The proposed adjustments result in a \$2.5 million balance remaining within the corporate funding pool, which Administration recommends would remain unallocated so that the City can respond to emerging items during the remainder of the 2019-2022 Capital Budget cycle.

City Council approved adjustments to the Waste Services Capital Budget as part of the Waste Services Spring 2020 Supplementary Capital Budget Adjustment, as well as additional funding for the Northwest Police Campus roof replacement on May 11, 2020. The information in this report does not include those adjustments.

The COVID-19 pandemic response has significantly slowed the local and provincial economies. The City continues discussions with the province about infrastructure stimulus funding to support the local economy, albeit no new spending has been announced at the time of writing. If, or when, new provincial funding is made available, Administration will return to Council with recommendations to allocate the funds toward capital projects within provincial requirements.

Report

2019-2022 Capital Budget Approved to Date

Council has approved \$9.66 billion in capital investment as part of the 2019-2022 capital budget cycle. This includes \$7.27 billion of approved capital spending over the period of 2019 to 2022, and \$2.39 billion in 2023 and beyond. The approved capital budget is categorized into Tax-Supported Operations (\$9.44 billion), Waste Utility (\$216.2 million), and Blatchford District Energy Utility (\$11.7 million).

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

Recommended Spring 2020 SCBA Adjustments

The recommendations in the Spring 2020 SCBA would result in an overall decrease to the approved capital budget of \$1.0 million. A summary of the Spring 2020 SCBA recommendations is found in Attachment 2. Complete details of the adjustments are shown in the Spring SCBA Detailed Adjustment Report, included as Attachment 3.

Supplemental capital budget adjustments requiring Council approval are sorted by category in the table below. A description of the budget adjustment type and details of adjustments in each category are discussed in Attachment 2 and in more detail in Attachment 3.

No.	Budget Adjustment Type	Impact to 2019-2022 Capital Budget (\$000's)
3.1	New Profiles Recommended for Funding	\$3,300
3.2	Scope Changes	\$30,064
3.3	Recosting	<\$41,792>
3.4	Historical Adjustments	\$10,318
3.5	Funding Source Adjustments (Council)	\$ -
3.6	Transfers in Excess of \$2 Million Between Profiles	\$ -
3.7	Transfers from Capital to Operating	<\$5,509>
3.8	Transfers from Operating to Capital	\$2,618
3.9	Project Development and Delivery Model Adjustments	\$ -
	Total	<\$1,001>

New profiles recommended for funding are included in Attachment 6.

Recosting includes the removal of \$43.9 million in funding from the City's capital budget related to drainage assets that are being transferred to EPCOR. On September 1, 2017, the City transferred its Drainage Utility to EPCOR but retained the underground drainage infrastructure for dry ponds. These assets are mainly funded by EPCOR and external grants from other orders of government. Prior to the assets being transferred to EPCOR, the City ensured the transfers adhered to the external grant funding agreements.

Status of Available Capital Funding

Funding Available Prior to Consideration of Spring 2020 SCBA

At the conclusion of Council deliberations at the Fall 2019 SCBA, \$40.4 million of funding remained available within the corporate funding pool. Adjustments since that time have resulted in a net \$21.9 million decrease in available funding. The remaining

corporate funding pool available prior to considerations in the Spring 2020 SCBA is \$18.5 million.

The adjustments consist primarily of a \$20.3 million reduction to Neighbourhood Renewal funding over the remainder of the 2019-2022 capital budget cycle due to a Council decision to defer the alley renewal program tax-levy increase by one year during the Fall 2019 SCBA. Additional adjustments include a \$3.2 million increase from revised capital forecasts and funding releases, and Council's decision during the Spring 2020 Supplemental Operating Budget Adjustment to reduce Pay-as-you-go (PAYG) capital funding by \$4.8 million, with \$1.6 million each year from 2020 to 2022, to achieve a 2020 municipal tax increase of 1.3 percent.

At the April 27, 2020, City Council meeting, as a part of the strategy to offset the financial effects of COVID-19, Council approved a one-time decrease in the operating transfer to the PAYG Capital Reserve by \$46.5 million. The PAYG Capital Reserve will be reimbursed through a reduction in capital expenditures intended to be funded through PAYG in the 2023 capital budget, resulting in no overall impact to the corporate funding pool during this capital budget cycle.

Corporate Funding Pool - Changes in Available Funding	Impact to Available Corporate Funding (\$ millions)
Funding Remaining Subsequent to Fall 2019 SCBA	\$40.4
<u>Adjustments to Funding Available:</u>	
Alley Renewal Funding Reduction	<\$20.3>
Forecast Adjustments and Funding Releases	\$3.2
Pay-As-You-Go Reduction (Spring 2020 SOBA)	<\$4.8>
COVID-19 Response - Transfer 2020 Pay-Go to Operating	<\$46.5>
COVID-19 Response - Pre-commitment of 2023 Pay-As-You-Go	\$46.5
Total Adjustments to Funding Available	<\$21.9>
Funding Available Prior to Consideration of Spring 2020 SCBA	\$18.5

Recommended Use of Corporate Pool Funding in Spring 2020 SCBA

The Spring 2020 SCBA recommendations would result in a net \$11.5 million decrease in corporate pool funding available, resulting in \$2.5 million of funding remaining available subsequent to the Spring 2020 SCBA. Administration recommends that this

funding remain unallocated and available for future emerging items that could arise over the remainder of the 2019-2022 Capital Budget Cycle.

Spring 2020 SCBA Recommended Use of Corporate Pool	Impact to Available Corporate Funding (\$ millions)
Funding Available Prior to Consideration of Spring 2020 SCBA	\$18.5
<u>Spring 2020 SCBA Recommended Adjustments:</u>	
Scope Changes:	
Enterprise Systems Transformation Program	<30.0>
Open City Technology - IT Projects	<3.5>
Fire Rescue Services Equipment Replacement	<1.3>
Alley Renewal Scope Reduction	20.33
Total Scope Changes	<14.5>
Recosting, Historical Funding Source Adjustments	3.0
Total Recommended Use of Corporate Pool - Spring 2020 SCBA	<11.5>
Held in Abeyance - Winspear (Downtown District Energy)	<4.5>
Funding Available Subsequent to Consideration of Spring 2020 SCBA	\$2.5

The Enterprise Systems Transformation Program (ESTP) was previously discussed with Council as emergent items requiring funding from the corporate funding pool. The June 4, 2019, Financial and Corporate Services report CR_6894, Enterprise Systems Transformation Program, presented to City Council, and June 10, 2019, Financial and Corporate Services report CR_6894rev, Enterprise Systems Transformation Program, Project Delivery and Business Case, presented to Executive Committee, provided Council with information on the ESTP. An update, including details on rationale for funding for the next stage of the project, is provided in Financial and Corporate Services report CR_7504, Enterprise Systems Transformation Program - Update, also on the May 25, 2020 City Council agenda.

The Open City and Technology IT projects were also discussed with City Council and identified as an emerging item in the Fall 2019 SCBA. The funding request is mainly for critical technology infrastructure renewal to replace network switches across the

City. There are 149 network switches that are more than 12 years old. Considering that best practice for switch replacement is between four and five years, the impact of not funding critical technology infrastructure is an increased risk of equipment failures and service delivery outages in critical areas. Additional funding is also required to enhance security and disaster recovery plans for existing technologies.

Fire Rescue Services heavy extraction equipment replacement is considered necessary and urgent to address safety concerns with current equipment. Replacement of this equipment is required to support emergency operations. The current equipment has exceeded its life cycle and anticipated maintenance and repair costs will increase with the extension of life cycle. The City's contract with the vendor to service and replace existing heavy extrication equipment has expired leaving Fire Rescue Services with no ability to replace equipment that is past end of life. All sets of this equipment within Fire Rescue Services need to be the same therefore complete replacement is needed versus replacement over time. The current funds in the Equipment Replacement Composite are dedicated to the replacement of other equipment such as hoses, on-board equipment and radios.

Additionally during the Fall 2019 SCBA Council approved \$4.5 million of unallocated corporate pool funding be held in abeyance to de-risk the Winspear Centre's expansion and its relation to the unfunded Downtown District Energy project, to be discussed further in 2020. Additional information on the Downtown District Energy System was brought to the April 15, 2020, City Council meeting in Financial and Corporate Services report CR_7754, Downtown District Energy Initiative – Public/Private Partnership Options. This project is discussed later in this report.

Further details on these adjustments are provided in Attachment 2 and a detailed reconciliation of the adjustments and recommend changes to the corporate funding pool since the Fall 2019 SCBA are shown in Attachment 4.

Emerging Items

The emerging items in Attachment 5 include projects that Council has previously approved and funded that 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 identified represent Administration's best estimate at this time. The projects include:

- 50 Street CPR Grade Separation
- School Park Site Development - Additional Locations (Keswick West; Keswick East)

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 all future SCBA reports. Administration also committed at the July 2, 2019, City Council meeting to apply a prioritization lens to the unfunded project list.

The Unfunded Project List is in Attachment 7. It includes projects from the original list presented to Council during budget deliberations and any other projects unfunded by City Council since that time.

As a first step in prioritizing the unfunded project list, Administration applied a high-level operational criteria scoring methodology to each project on the list. The operational criteria scored included Mandate, Safety Risk, Corporate Operational Risk, Operational Efficiency, Sustainability, and Financial Benefit. The result of this work is a low, medium, or high operational criteria ranking for each project on the unfunded project list.

The low, medium, and high ranking is based on operational criteria only, and does not include scoring based on a project's alignment with Edmonton's Strategic Plan and goals as reflected in ConnectEdmonton. Prioritization of the unfunded capital list and future capital budgets will be completed using the prioritized based budgeting framework. This process will be refined after the City Plan is approved.

The list also includes details on each unfunded project's current checkpoint status, and the checkpoint these projects were funded to in the original budget, before they were unfunded, in accordance with the Project Development and Delivery Model. Projects that have reached Checkpoint 3 have completed planning and design work. Checkpoint 4 includes funding for construction and delivery.

Capital Projects Funded to Design - Update

The Capital Project Governance Policy C591 requires that all capital projects follow the Project Development and Delivery Model (PDDM). The PDDM is a phased approach that includes formal checkpoint reviews as projects progress through the strategy, concept, design, build and operate value chain. The PDDM ensures that all City projects progress to an appropriate level of development prior to being considered for the delivery phase. Completion to Checkpoint 3 in the PDDM means enough design work has been completed to allow:

- Identification of risks with appropriate mitigation
- A defined schedule
- A set budget based on the project scope

As a part of the 2019-2022 capital budget Council chose to fund design work for certain projects to Checkpoint 3, with no additional funding for delivery. At this time there is one approved project that is in this category and has completed design work to Checkpoint 3.

The Ambleside Integrated Site Phase 1 project includes the maintenance and operation facility and yard for the City Operations department in the southwest portion of the City. An approved budget of \$1.5 million in the 2019-2022 Capital Budget allowed for the development to PDDM Checkpoint 3. The budget has been expended and the project has reached Checkpoint 3. The next stage of the project, from the current PDDM Checkpoint 3 to Checkpoint 4, is estimated at \$3.6 million and 12 months of work. The total cost of the project is estimated to be in the range of \$60 million to \$80 million. Construction of the facility would take approximately 36 months.

Downtown District Energy Initiative

At the April 15, 2020, City Council Meeting, Council requested an unfunded capital profile for consideration at the 2020 Spring SCBA for the construction of an Energy Centre on City lands, co-located with the Winspear expansion project, as the potential first stage of a Downtown District Energy System.

Administration has developed two options for Council's consideration.

Option 1 - Proceed with an initial stage of Downtown District Energy - City/EPCOR Partnership

This option would continue to advance the Downtown District Energy initiative in a scaled-down approach with the Central District Energy Plant located at the Winspear.

Administration has included an unfunded profile for Option 1 as Attachment 8.

The total project cost is currently estimated at \$27.9 million and the funding sources included in the unfunded capital profile reflect the Integrated Infrastructure Services report CR_7754 Downtown District Energy Initiative – Public/Private Partnership Options presented to City Council on April 15, 2020.

- \$13.8 million funded through self-liquidating debentures (repaid through utility customer rates)
- \$2.6 million in previously approved PAYG funding transferred from existing capital profile "CM-13-0000 - Facility: Service Support - Renewal"
- \$4.5 million previously approved PAYG funding to be held in abeyance in the corporate funding pool
- \$7.0 million currently unfunded (funding gap)

The City and EPCOR continue to advance discussions on a Memorandum of Understanding that would inform the basis of assumed roles for development, financing and an operating model for the initial stage of this project. EPCOR continues to review and refine their business case and is anticipated to complete this work in the summer 2020. Administration could return with a report when more information becomes available.

Currently, there is insufficient corporate pool funding remaining to accommodate the \$7.0 million funding gap in this profile. If Council were to approve this capital profile, it would result in a corporate funding pool deficit.

Administration recommends caution with respect to overcommitting PAYG in the corporate funding pool. This would reduce the City's flexibility to respond to further financial impacts of COVID-19 and fund emerging items. That being said, Council should consider the potential for stimulus funding that could replenish the corporate funding pool if it were drawn into a deficit balance at this time. Further debt would not be recommended for the utility. The capital profile already reflects funding through \$13.8 million in self liquidating debt; this is the maximum amount the utility could borrow to keep utility costs comparable to conventional electrical and heating sources.

Option 2 - Do not proceed with the development of Downtown District Energy

This approach would abandon the current Downtown District Energy initiative plan with the Winspear as the first Central District Energy plant location, and would result in the Winspear needing to adjust its building design for its expansion project and provide its own heating plant. Funding would be provided to Winspear through \$4.5 million previously approved to be held in abeyance in the corporate funding pool. No new funding is required from the corporate funding pool under this option.

Any design work for a future Downtown District Energy system, including an alternative location for a District Energy plant and overall system layout, would still need to be funded.

Potential for Additional Stimulus Funding and Job Creation Information

The COVID-19 pandemic response has significantly slowed the local and provincial economies. On April 10, 2020, the Mayor sent a letter to the Premier of Alberta and Minister of Municipal Affairs providing a list of more than \$2.1 billion in stimulus shovel-ready priority projects for 2020 and 2021 that would create approximately 10,000 jobs and directly benefit people living in the Edmonton region. The letter is included as Attachment 9. If provincial funding is made available, Administration would return to City Council with a subsequent capital budget adjustment specific to the use and allocation of potential stimulus funding to capital projects.

Attachment 10 includes a high level summary of the estimated job impacts based on the City's currently approved 2019-2022 capital budget.

Public Engagement

Public engagement was not conducted as part of the development of this Supplemental Capital Budget Adjustment.

Administration delivered operating and capital engagement events as part of the 2019-2022 Operating and Capital Budgets development and approval process. These opportunities to include the public in the City’s budget process included event and festival outreach, a My Budget survey and a non-statutory public hearing.

Residents will have the opportunity to address City Council directly during non-statutory Public Hearings before consideration of adjustments for the 2020 Fall 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	\$2.5 million (Projected results at the end of 2019-2022, pending approval of the Spring 2020 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 2020 SCBA Recommendations
3. New Profiles Requesting New Funding
4. Corporate Funding Pool Balances
5. Emerging Items
6. New Profiles Recommended for Funding
7. Unfunded Projects List
8. Unfunded Downtown District Energy Initiative Capital Profile (Option 1)
9. Letter to Province - Stimulus Funding
10. Job Impacts of 2019-2022 Capital Budget

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- J. Meliefste, Acting 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 Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor