

THE WAY WE FINANCE

Southeast to West LRT Funding

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Presented to: City Council, October 17, 2012
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Introduction

- Report outlines options for financing the costs of the SE to W line under a P3 delivery.
- Council direction is required:
 - cost-sharing arrangements;
 - proposed funding options to fund the City's contribution.
- P3 Confidentiality

Project Overview

- The combined SE to W LRT expansion was approved by Council as the next priority after NAIT in Feb. 2010.
- Council approved delivery of the SE line as a P3 and directed Administration to submit a funding application to P3 Canada.
- Total project costs of \$3.2B for the combined SE (\$1.8B) to W (\$1.6B) line.
- SE Phase - Municipal funding of \$800M, subject to a funding commitment from the other two orders of government for the remaining \$1B.
- We have also provided an option for a one-third contribution from each order of government (\$600M each).

Municipal Funding

- Council has approved \$141M for the combined SE to W line, of which 127M is allocated predominantly for SE LRT:
 - \$25M for preliminary engineering ; and
 - \$102M for land acquisition.
- Municipal funding of \$673M is still required for the SE line.
- Council has approved \$14M for preliminary engineering for the W LRT.

Funding Strategy

SE LRT Capital Costs

- Municipal sources proposed for funding the remaining \$673M required for the SE line, include:
 - LRT Reserve: \$26.4M;
 - Capital Budget Allocations: \$50M beyond 2014 from various sources;
 - Debt: \$596M of new debt (combination of both City financed private partner financed).
 - The funding strategy allocates debt servicing capacity as debt is retired as the main capital funding source. All of the City's existing debt servicing capacity will be used as it becomes available for SE LRT until 2024, and W LRT until 2027.

Funding Strategy

SE LRT Capital Costs (continued)

- Proposed funding sources to service the City's new debt, include:
 - Debt Servicing Capacity: \$26M per year is will become available in the 2018-26 timeframe as City debt is repaid;
 - Tax Levy: 0.73%, which is a total tax increase of \$8.5M to be levied in stages over the 3 yrs of construction;
 - LRT Reserve Fund: portion of the \$5.1M of dedicated tax per year the fund collects is currently available for SE LRT.

Funding Strategy

SE LRT Operating/Maintenance Costs

- Over the next 30 yrs base operating/maintenance costs and major maintenance costs are estimated and included in the in-private report.
- Completion of the SE LRT is expected to result in capital cost avoidance for bus fleet operations and maintenance over the next 30 yrs; associated benefits related to TOD and other City-shaping opportunities are also anticipated.
- Under a P3, total capital and operating/maintenance lifecycle costs are part of the P3 contractual arrangement and are repaid to the P3 partner over the term of the contract (in this case 29 yrs).

Alternative Funding Strategy

SE LRT Capital Costs - 1/3 cost sharing

- Municipal sources proposed for funding the 1/3 share of the \$533.3M required for the SE line, include:
 - \$127M Council previously approved for SE:
 - LRT Reserve: \$26.4M;
 - Capital Budget Allocations: \$50M beyond 2014 from various sources;
 - Debt: \$330M of new debt (private partner investment repayable to the P3 partner over 25 yrs and 29 yrs).
- Annual debt carrying costs of \$21.9M beginning in mid 2020 – lessening after 25 yrs as debt is retired.

Funding Strategy

West LRT Capital Costs

- Project costs of \$1.6B are contingent on a 2019 construction start.
- A cost-sharing arrangement of one-third by each order of government is proposed.
- The City's share would require a total investment of \$536.9M.
- Debt financing (25-29 yr terms) is required to fund the City's share of the costs

Funding Strategy

West LRT Capital Costs (continued)

- Proposed funding sources to service the City's debt, include:
 - Debt Servicing Capacity: \$22.2M per year will be available by 2030 as City debt continues to be repaid.
 - Tax Levy: 1.12%, which is a total tax increase of \$15.7M to be levied in stages over the 6 yrs of construction.

P3 -Advantages

Advantages of a P3 delivery for the SE portion of the SE-W LRT:

- Will provide between 3% and 10% savings (“value-for-money”) for the combined design, construction, operation and maintenance of this stand alone LRT system.
- Single entity responsible for all key elements of the Project (i.e. a single point of accountability for the integration of the design, build, vehicle supply, finance, operations and / or maintenance of the Project);
- Opportunity for innovation;
- Optimization of whole-of-life outcomes;
- Long term warranty (i.e. payment over approximately 30 years based upon actual performance);
- Optimal risk allocation between public and private sector significantly reducing public sector risk exposure;

P3 - Advantages

- Schedule and cost certainty (alignment of incentives due to payment mechanism, private finance and long term accountability);
- Competitive process likely to attract large international and domestic players;
- Ideal for major projects over \$200 million that can stand alone (as opposed to an expansion of existing infrastructure, where the expansion is not sustainable without the original portion);
- Ability to leverage existing precedent documents for the procurement to save time and cost; and
- Lower public sector resource requirements over the long term operations and maintenance phase of the agreement.

P3 - Challenges

- **Challenges of using a P3 to deliver the SE portion of the SE-W LRT:**
- More complex procurement process (for both the public sector and the private sector);
- Detailed documentation required and significant up-front involvement from the public sector to define its requirements (can be mitigated by using precedent documents); and
- Post contract award, changes can be more difficult to achieve (as the negotiation process involves more parties i.e. lenders, equity providers, operators).

P3 Transit Projects in Canada

- Examples of transit projects being delivered as P3s:
 - **Waterloo:** \$818M project, of which \$750M is LRT and the rest BRT. Funding includes a federal contribution of \$300M (BCF), provincial contribution of up to \$265M, and a municipal contribution for the balance to be funded through an incremental tax increase of 1.5% over 7 yrs.
 - **Ottawa:** \$2.1B project. Funding includes a federal contribution of \$600M (BCF and CSIF); provincial contribution of \$600M, and a municipal contribution for the remainder to be funded from various sources, including federal Gas Tax allocations of \$50M per year.
 - **BC's Evergreen Line:** \$1.4B project. Funding includes a federal contribution of up to \$417M (BCF), provincial contribution of \$583M, and \$400M contribution from TransLink.
- Federal funding for the above projects was earmarked earlier in the Building Canada Infrastructure Plan (announced in 2007). The P3 Canada program did not commence until 2009.

Questions