
# Funding Models for Fast Tracking LRT Construction

Transportation and Public Worksl
January 25, 2011
Finance & Treasury Department

The City of Edmonton

TRANSFORMING | EDMONTON
BRINGING OUR CITY VISION TO LIFE

# Council's LRT Growth Plan

- Strategic goal to shift transportation mode, increase TOD urban form, reduce exhaust, connect city
- $3.9 billion LRT extension (inflated $) to complete by 2016, using traditional design-build approach
  - NAIT line for $725 million which is already approved with financing committed
  - $3.2 billion for:
    - South East Line ($1.8 billion)
    - West Line ($1.2 billion)
    - Downtown Connector ($.2 billion)

# Three Key Decisions

1. What should be the City's share of funding?

2. How should it be financed?
    a. Reallocating from existing Capital Plan
        i. Growth Projects
        ii. Rehabilitation Projects, and
    b. How much through tax-supported debt

3. How to pay for increased debt servicing costs?

# 1. What should City's Funding Share Be

- $3.9 billion is beyond the City's financial capacity to do it alone; 1/3 City contribution can be managed and 2/3 required from other Orders of Government

- City's 1/3 share is $1.3 billion of which $305 M available. $1 billion more needed

# 2. Re-allocation in Capital Plan

- Capital Plan (2012-2018) is $4.7 billion
  - $1.7 billion in growth projects
  - $3.0 billion in rehabilitation projects

- Capital Plan requires adjustment for:
  - Emerging priorities (e.g., Walterdale Bridge, NE Anthony Hendy Drive Connectors)
  - MSI annual funding reduction and program extension
  - Lower annual level of MSI grants
  - Pay-as-you-go reduction from lower investment earnings
  - MSI and Fuel tax fast-tracking repayment commitments

# 2.a.i. Financing Our Share - Re-allocating From Growth Projects

- $1.7 billion of Growth Projects in Plan; only $448 M available for allocation. Balance is:
  - For NAIT Line - $338 M
  - Funded from sources that cannot be allocated to LRT - $861 M (e.g., enterprise retained earnings, reserves, developer contributions
- Recommend strategic reallocation from growth projects:
  - $200 M from $343 M of Transportation projects
  - $95 M for other services remain as planned

# 2.a.ii. Financing Our Share – Rehabilitation Projects

- $3 billion over 2012-2018 period, of which:
  - $1.4 billion for neighbourhoods considered a priority and not available for LRT
  - $.2 billion not available for re-allocation due to funding source
  - $1.4 billion of which $0.9 billion for Transportation and $0.5 billion for all other infrastructure (excluding utilities)

- Re-allocation for LRT not recommended because:
  - Rehabilitation only 40% funded, with growing backlog
  - Rehabilitation is like debt, once infrastructure is built, a future obligation to rehabilitate is created

# 2.b. Financing Our Share – Borrowing

- After re-allocating $200 M from growth projects, $806 M in borrowing required

- Can be accommodated within debt limits; at peak in 2015, we're within 25% of maximum

- Can also consider reallocating existing Debt approvals from approved projects not yet started
  - 2012-2018 Great Neighbourhoods Program - $105 M
  - Meadows Recreation Centre and Library - $137 M

# 3. Paying for Debt Servicing

- Borrowing $806 M requires $56 M in annual debt servicing for 25 years
- Potential ongoing sources are:
  - Fuel tax - about $100-105 M annually
  - Transit Operating Savings - required for incremental costs of new lines
  - Transit LRT Construction Fare Surcharge - 25¢ generates about $6 million annually
  - Tax Levy

# Option 1 – No Tax Levy Increase

- $200 M from Growth Projects and $806 M borrowing
- Requires $56 M Debt Servicing
- All from Fuel Tax which is projected at $100-105 M annually
- Not Recommended given impact on future Transportation growth and rehabilitation projects over the term of the debt repayment

# Option 2 – Phased Tax Levy Increase

- $200 M from Growth Projects and $806 M borrowing
- Requires $56 M Debt Servicing
- $56 M Debt Servicing from
  - $19 M in Fuel tax
  - $37 M in tax levy phased in by 0.5% annual increases for 7 years beginning in 2012

# Recommended Financing Model

1. What should be the City's share of funding?
   a. SE and West Lines and Downtown Connector subject to other government commitments, with City share at 1/3
   b. Mayor to seek commitments from other orders of government
2. How should it be financed?
   a. Reallocating $200 M from existing Growth Projects
   b. $806 M in tax-supported debt

3. How to pay for increased debt servicing cost?
   a. 0.5% tax increase for 7 years beginning 2012
   b. Fuel tax revenues
   c. Consideration of transit ticket LRT construction surcharge

THE CITY OF Edmonton



TRANSFORMING | EDMONTON
BRINGING OUR CITY VISION TO LIFE