

Fall 2019 Supplemental Capital Budget Adjustment - 2019-2022 Capital Budget

Recommendations

1. That adjustments to the 2019-2022 Capital Budget as outlined in Attachment 3 of the December 5, 2019, Financial and Corporate Services report CR_7485rev, be approved.
2. That the following adjustments to the 2019-2022 Capital Budget related to addressing the MSI funding reduction, as outlined in Attachment 4 of the December 5, 2019, Financial and Corporate Services report CR_7485rev, be approved:
 - a. \$24,712,132 reduction to the 2019-2022 Capital Budget related to funding releases
 - b. \$27,500,000 reduction of the 2019-2022 Capital Budget related to projects no longer being delivered in the cycle
 - c. \$26,516,800 reduction to the 2019-2022 Capital Budget related to the removal of growth projects
3. That adjustments to the 2019-2022 Capital Budget related to the cancellation of Alberta Community Transit grant projects, as outlined in Attachment 5 of the December 5, 2019, Financial and Corporate Services report CR_7485rev, be approved.

Previous Council/Committee Action

At the December 5, 2019, City Council meeting, the following motion was passed:

That the December 5, 2019, Financial and Corporate Services reports CR_7747, CR_7483rev and CR_7485rev be postponed to the December 11, 2019, City Council meeting.

At the June 4, 2019, City Council meeting, the following motion was passed:

1. That Administration provide City Council with a list of all unfunded capital profiles presented as part of the November 28, 2018, City Council, 2019-2022 budget deliberations, at all future supplementary capital budget adjustments.

At the October 2, 2019, Community and Public Services Committee meeting, Councillor M. Walters made the following inquiry:

Can Administration provide an update on the existing status of Capital Profile CM-30-3030, The Queen Elizabeth Bike Park Phase 3 along with the Fall Supplemental Capital Budget Adjustment.

At the October 22, 2019, City Council meeting, the following motion was passed:

1. That Administration prepare unfunded capital profiles for planning and design of the stadium and training site renovations, for consideration by City Council during the 2019 Fall Supplemental Capital Budget Adjustment, for implementation of further work on the major event host city bid.

At the October 25, 2019, Special City Council meeting, the following motion was passed:

That Administration prepare the following for Council as part of the budget:

1. Capital budget reprioritization scenarios, including deferral or cancellation of capital projects in the current 2019-2022 infrastructure cycle and implications for asset management to account for the \$150 million reduction in infrastructure grants;
2. Operating budget reprioritization options including a 0% tax increase in 2020 to further reduce the city's expenditure on services or contributions to the infrastructure budget;
3. Analysis of the cumulative debt interest costs to Edmontonians of the City's interim financing required by the back-ending of provincial support for the Yellowhead and LRT projects;
4. Simplified comparison of the short and long term differences between the City Charter Fiscal Framework and the Local Government Fiscal Framework, including the annual adjustment escalator mechanism to account for growth; and,
5. Implications, options and possible offsets around the reductions in provincial grants for infrastructure and services rendered to provincial facilities in the city (i.e. the Grants In Lieu of Property Tax) including relevant Canadian legal precedents.

At the November 5, 2019, City Council meeting, the following motion was passed:

- 1) That the civic debt capacity allocated to matching ACT-funded projects be reprioritized within and beyond the ACT projects as part of the forthcoming budget adjustments, subject to 2. c. below.
- 2) That Administration rescope the combined Terwillegar Drive Expressway Upgrade Phase 1 (19-22-9004) and Phase 2 (19-22-9005) projects as follows:

- a) to account for the elimination of the province's specific requirements around the dedicated transit elements, while maintaining appropriate transit and alternate mode accommodation;
- b) bring an analysis of the merits of keeping the phases combined or breaking it back into separate phases;
- c) in the interim, maintain the debt room currently allocated to the Terwillegar Drive Expressway Upgrade projects in the forthcoming budget.

At the November 26, 2019, City Council meeting, the following motion was passed:

That the Woodcroft Library Co-location project, as outlined in Option C of the November 20, 2019, Integrated Infrastructure Services report CR_7468, be included for consideration by Council during the 2019 Fall Supplementary Capital Budget Adjustment deliberations, with the list of other unfunded priorities.

Executive Summary

The Supplemental Capital Budget Adjustment (SCBA) report is an integral component of the City Council approved multi year approach to set the 2019-2022 Capital Budget. It provides Council with an opportunity to adjust the Capital 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 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 in this report 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 increase in the 2019-2022 Capital Budget for tax-supported operations of \$43.4 million prior to considering the impacts to provincial grant funding as a result of the 2019 Alberta Budget. In order to address the provincial grant funding reduction, the report includes recommendations for a \$78.7 million reduction in capital spending to address the MSI funding reduction, and a \$285.2 million reduction related to the elimination of projects previously funded by the Alberta Community Transit Fund. The net impact of these adjustments is an overall net decrease to the 2019-2022 Capital Budget for tax-supported operations of \$320.5 million.

The proposed adjustments contained in this report would result in a \$58.2 million balance remaining within the corporate funding pool, which Administration

recommends would remain unallocated for future emerging items during the remainder of the 2019-2022 Capital Budget cycle.

Finally, the recommendations contained in this report do not include proposed adjustments for the Waste Services 2019-2022 Capital Budget. The Supplemental Capital Budget Adjustment report for Waste Services was approved by City Council on September 10, 2019. Additional capital budget adjustment requests for Waste Services will be brought forward as part of the Waste Services Fall 2019 Supplementary Capital Budget Adjustment presented to Utility Committee on December 6, 2019, after which it will go to Council for consideration and approval.

Report

2019-2022 Capital Budget Approved to Date

Council has approved \$10.24 billion in capital investment as part of the 2019-2022 capital budget cycle. This includes \$7.74 billion of approved capital spending over the period of 2019 to 2022, and \$2.5 billion over the period of 2023 and beyond. Approved capital spending is broken down between Tax-Supported Operations (\$9.94 billion), Waste Utility (\$284 million), and Blatchford District Energy Utility (\$11.7 million).

The recommendations in the 2019 Fall SCBA (including recommendations related to the MSI and ACT grant funding reductions) would see an overall decrease to the capital budget of \$320.5 million. This brings the City's total approved capital budget from \$10.24 billion to \$9.92 billion.

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

Recommended 2019 Fall SCBA Adjustments Prior to Consideration of Provincial Budget Impacts (see Attachment 2 and 3)

Total adjustments as recommended would result in an overall increase of \$43.4 million to the 2019-2022 capital budget. A summary of the Fall 2019 SCBA Detailed Adjustments Report is found in Attachment 2. Complete details of the adjustments are shown in the Fall 2019 SCBA Detailed Adjustment Report included as Attachment 3.

Supplemental capital budget adjustments requiring Council approval are sorted by the following categories in the attachment:

- 3.1 New Profiles Recommended for Funding
- 3.2 Scope Changes
- 3.3 Recosting
- 3.4 Historical Adjustments
- 3.5 Funding Source Adjustments (Council)

- 3.6 Transfers in Excess of \$2 Million Between Profiles
- 3.7 Transfers from Capital to Operating
- 3.8 Transfers from Operating to Capital
- 3.9 Project Development and Delivery Model Adjustments

Impact of 2019 Provincial Budget

The 2019 Alberta Budget was released on October 24. Included in the budget were the following impacts to provincial grant funding in Alberta:

- The Municipal Sustainability Initiative (MSI) funding was reduced by \$94 million and \$142 million in 2020-21 and 2021-22, respectively. The \$236 million reduction to MSI represents a nine percent reduction over the three remaining years of the program.
- A new Local Government Fiscal Framework will replace the existing MSI/Basic Municipal Transportation Grant and the City Charters Fiscal Framework Act. Along with a reduction of the funding allocated to the cities of Calgary and Edmonton of \$45 million (from \$500 million to \$455 million) the new legislation reduced the growth rate to 50 percent of the growth in provincial revenues (previously escalated to 100 percent over a period of 10 years) and changed the allocation of funding between the two cities. A high level comparison between the City Charter Fiscal Framework and the Local Government Fiscal Framework is included as Attachment 11.
- The Alberta Community Transit Fund (ACT) program has been removed.
- The province will maintain its commitment of \$3 billion for Edmonton and Calgary LRT projects. However, cash flows related to this funding have been adjusted with most of the provincial funding being provided after 2022-23.

Administration has projected that the 2019 Alberta Budget will have the following impacts to the City’s 2019-2022 Approved Capital Budget:

Item	Financial Pressure
Municipal Sustainability Initiative (MSI) reduction	\$57.5 million
MSI Replacement (New Local Government Fiscal Framework) reduction	\$36.6 million
<i>Sub-total of MSI and MSI replacement funding reductions</i>	\$94.1 million
Alberta Community Transit Fund (ACT) program elimination	\$89.3 million
<i>Total impact to 2019-2022 City of Edmonton Capital Budget</i>	\$183.4 million

Approaches for Addressing 2019-2022 Capital Funding Reduction

Strategies to address MSI and MSI-Replacement grant funding reduction (\$94.1M)

Specific to MSI and MSI-Replacement funding, Administration took the following approach for addressing the capital funding reduction:

- Identify funding that can be released from projects close to completion.
- Identify existing growth or renewal projects where previously identified work is likely to be carried out in the 2023-2026 Capital Budget Cycle.
- Delay or cancel currently approved growth projects.

The following table summarizes the related strategies over the 2019-2022 capital budget cycle.

MSI and MSI-Replacement Grant Funding Reduction Strategy	Relevant Attachment and Recommendation	Financial Impact
Funding that can be released from projects close to completion	Attachment 4 (A) Recommendation 2a	\$24.7 million
Interest income on unspent MSI	N/A	\$4.6 million
Re-allocation from the corporate funding pool relates to available funding sources other than the Federal Gas Tax	Attachment 6	\$10.8 million
Existing growth or renewal projects where previously identified work is likely to be carried out in the 2023-2026 Capital Budget Cycle	Attachment 4 (B) Recommendation 2b	\$27.5 million
Delay or cancel currently approved growth projects	Attachment 4 (C) Recommendation 2c	\$26.5 million
Total strategies to address to 2019-2022 Capital Budget pressures		\$94.1 million

Additional details surrounding the above amounts were included in the December 5, 2019, Financial and Corporate Services report CR_7747 - Options to Further Reduce 2020 Operating Budget.

Alberta Community Transit (ACT) Grant Funded Projects (\$89.3 million total)

City Council approved the following capital profiles totaling \$287.2 million, of which \$89.3 million was ACT Grant funded, \$195.1 was tax-supported debt funded and \$2.8 million was Pay-As-You-Go funded:

- CM-99-6060 - ACTF - Infrastructure Planning and Design
- CM-99-9001 - ACTF - Infrastructure Delivery
- 19-10-1011 - Stadium LRT Station Upgrade
- 19-22-9004 - Terwillegar Drive Expressway Upgrades Stage 1
- 19-22-9005 - Terwillegar Drive Expressway Upgrades Stage 2
- CM-61-3620 - Electric Buses - ACT Funded

The above profiles were not included in the 2019-2022 Recommended Capital Budget by Administration. City Council made motions to bring the projects forward during Capital Budget deliberations when the ACT program was announced and there was an opportunity to leverage grant dollars.

With ACT grant funding now being removed, Administration recommends that these projects are unfunded and return to the unfunded project list for future consideration. The removal of these projects is included as Recommendation 3 of this report. Additional details of this adjustment are found in Attachment 5.

At the November 5, 2019, City Council meeting, a motion was made for the civic debt capacity allocated to matching ACT-funded projects to be reprioritized within and beyond the ACT projects.

ACT projects have been re-scoped and estimates to deliver the work have been revised. After these revisions the total costs of all ACT projects excluding electric buses is \$165.5 million. Reallocating the debt to these re-scoped projects would leave \$32.4 million of the \$195.1 million in debt originally contemplated for these ACT Projects. Details of the re-costing and the allocation of debt are in Attachment 10.

Approved ACT projects included electric buses. Administration entered into an agreement for electric buses in April 2019, prior to the ACT program being eliminated and in advance of the borrowing bylaw that has not yet received third reading. As the *Municipal Government Act* does not allow projects to commence prior to the passing of a borrowing bylaw, Administration is using the Bus Fleet & Equipment Rehab & Replacement composite profile (CM-66-3600) to fund the electric bus order. In order to maintain the appropriate level of bus replacement, the remaining \$32.4 million of debt identified for ACT projects could be used to further fund the Bus Fleet & Equipment Rehab & Replacement composite profile (CM-66-3600) and the profile would contain electric and diesel buses. The reallocation of ACT debt is not being included in the Fall 2019 SCBA. If Council does not add the revised debt allocation contemplated in Attachment 10 to the Capital Budget, then the purchase of electric buses will be absorbed into the composite profile and will result in a reduction of diesel bus purchases.

On November 5, 2019, City Council also requested that Administration rescope the combined Terwillegar Drive Expressway Upgrade Phase 1 (19-22-9004) and Phase 2 (19-22-9005) projects as follows:

- a. to account for the elimination of the province's specific requirements around the dedicated transit elements, while maintaining appropriate transit and alternate mode accommodation;

- b. bring an analysis of the merits of keeping the phases combined or breaking it back into separate phases.

As it relates specifically to Terwillegar Drive Expressway Upgrade Stage 1 (19-22-9004) and Stage 2 (19-22-9005), the projects were reviewed and rescoped to account for the elimination of the province’s specific technical project requirements around the dedicated transit elements, while maintaining appropriate transit and alternate mode accommodation. Should this project be funded, the recommendation is to proceed with a modified staging plan that would reallocate elements of Stage 1 (Terwillegar Drive widening south of Rabbit Hill Road) and accelerate elements of Stage 2 (Whitemud and Terwillegar interchange and Rainbow Valley Bridge widening) to address the most critical contributors of congestion over 2019-2022 and 2023-2026. The total budget of the alternative staging plan is \$104 million. Additional information on this revised project scope will be provided to City Council for discussion on December 11.

Details of the re-scoped ACT projects, including the Terwillegar Drive Expressway, and the revised funding are included in Attachment 10. The recommendations in the report remove the ACT projects, as originally funded, from the Capital Budget. Re-scoped ACT projects with revised funding have not been included within the Fall Supplemental Capital Budget Adjustment. Motions to include any or all of these projects will be required during deliberations.

Status of Available Capital Funding

The forecasted available funding balance at the end of the Spring 2019 SCBA was \$96.8 million. This amount was adjusted down to \$93.8 million based on minor revisions to funding forecasts, and one-time additional budget adjustments approved by Council subsequent to the 2019 Spring SCBA.

The adjustments recommended in this report would result in using \$35.6 million of available corporate funding, as follows:

Budget Adjustments Impacting Available Corporate Funding	Impact to Available Corporate Funding (\$millions)
Corporate Funding Available Prior to Fall 2019 SCBA Recommendations	\$93.8
Fall 2019 SCBA Adjustments (recosting and PDDM)	\$(25.6)
MSI Funding Reduction Strategy Adjustments	\$(10.8)
ACT Grant Reduction Adjustments	\$0.8
Total Impact to Available Corporate Funding	\$(35.6)

Corporate Funding Available After Fall 2019 SCBA Recommendations	\$58.2
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The above adjustments to the corporate funding pool would result in a \$58.2 million forecasted balance of available corporate funds subsequent to the Fall 2019 SCBA. A reconciliation of this amount is shown in Attachment 6. Administration would recommend that this funding remain unallocated and available for future emerging items that arise over the remainder of the 2019-2022 Capital Budget Cycle.

Emerging Items

Attachment 7 provides details for the following projects that Administration as identified as emerging items that will require capital budget funding adjustments within the 2019-2022 cycle:

- Downtown District Energy
- Co-located Dispatch and Emergency Operations Centre
- Enterprise System Transformation Program (Phase 2)
- 50 Street CPR Grade Separation
- Open City and Technology Projects

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) as part of all future SCBA reports. In addition, Administration made a commitment to Council at the July 2, 2019, City Council meeting to apply a prioritization lens to the unfunded project list.

The Unfunded Project List can be found in Attachment 9. It includes projects from the original list presented to Council during budget deliberations and any other projects approved by Council for consideration since that time.

As a first step in providing a prioritization lens to 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 end result of this work is a low, medium, or high operational criteria ranking shown next to each project on the unfunded project list in the attachment.

It is important to note that the low, medium, and high ranking is based on operational criteria only, and does not include scoring based on a project’s alignment with Council’s strategic goals. This work continues to be developed with budgeting based

on priority and will be factored into future unfunded list scoring as the process matures.

Update on Queen Elizabeth Park Bike Park Phase 3

A motion was passed at the October 2, 2019, Community and Public Services Committee meeting to provide an update on the existing status of Capital Profile CM-30-3030, The Queen Elizabeth Bike Park Phase 3.

The Bike Skills Park is part of Phase 3 of the Queen Elizabeth Park Master Plan. This work has been previously funded and completed up to checkpoint 2. There is currently no approved funding to advance to checkpoint 3. The advancement of Queen Elizabeth Phase 3 is included in the unfunded projects list in Attachment 9.

Planning and Design for Stadium and Training Site Renovations

A motion was passed at the October 22, 2019, City Council meeting to prepare unfunded capital profiles for planning and design of the stadium and training site renovations, for consideration by City Council during the 2019 Fall Supplemental Capital Budget Adjustment, for implementation of further work on the major event host city bid.

The above project is currently listed on the unfunded projects list in Attachment 9.

Interim Borrowing Related to Back-Ended Provincial Grant Funding

The Province has indicated that their funding contribution to the following significant capital projects will be back-ended:

- Yellowhead Trail Upgrades
- Valley Line West LRT
- Metro Line (NAIT to Blatchford) LRT

When grant funding is not received until later in the project, the City is required to contribute a higher proportion of its funding share in the early stages of the project. When the City reaches a point of having contributed 100 percent of their approved contribution to a project, and grant funding received from this point forward is not sufficient to cover the cash-needs of the project going forward, an interim funding shortfall exists that may require the City to borrow on an interim basis for cash flow purposes.

Based on current estimates, Administration believes that there will be limited interim funding required based on back-loaded provincial contributions. However, cash flows have yet to be finalized and are subject to change based on the pre-procurement

stage of each project. Administration continues to monitor these inputs and will advise Council of any changes.

If interim borrowing was required, each \$100 million in short term borrowing debentures would cost the City \$2 million per year in interest costs (based on current lending rates). For a three year short-term debenture, this would amount to \$6 million of total interest costs.

Public Engagement

Specific public engagement was not completed to inform this Supplemental Capital Budget Adjustment. As part of the 2019-2022 Operating and Capital Budgets development and approval process, education and engagement opportunities included event and festival outreach, a “My Budget” survey and a non-statutory public hearing. There will be an opportunity for the public to provide feedback on the Supplemental Capital Budget Adjustment at the Non-Statutory Public Hearing on December 5, 2019.

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	\$58.2 million	Total funding balances are targeted to be greater than \$0 as a demonstration of flexibility to fund future emerging items within policy.
	Total Projected Neighbourhood Renewal Funding Balance	\$0.5 million	
	Total Projected MSI Funding Balance	\$(4.2) million	
	Total Projected PAYG Funding Balance	\$5.0 million	
	Total Projected Federal Gas Tax Funding Balance	\$56.9 million	
		(Projected results at the end of 2019-2022, pending approval of the 2019 Fall SCBA recommendations)	

Attachments

1. Impact Summary
2. Summary of Fall 2019 SCBA Recommendations
3. Detailed Adjustment Report
4. MSI Reduction Strategy Detailed Adjustment Report

5. ACT Grant Funding Reduction Detailed Adjustment Report
6. Funding Balances
7. Emerging Projects
8. New Profiles Recommended for Funding
9. Unfunded Projects List
10. ACT Grant Funding Strategies to Mitigate
11. City Charter and Local Government Fiscal Framework Comparison

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