

Fall 2020 Supplemental Capital Budget Adjustment

Recommendation

1. That adjustments to the 2019-2022 Capital Budget, as outlined in Attachment 3 of the November 16, 2020, Financial and Corporate Services report CR_8486, be approved.
2. That changes to estimated project completion dates based on scope changes as outlined in Attachment 8 of Financial and Corporate Services report CR_8486, be approved.

Previous Council/Committee Action

At the November 16/18/20, 2020, the following motion was passed:

That the November 16, 2020, Financial and Corporate Services report CR_8486 be referred to the December 3, 2020, City Council Non-Statutory Public Hearing - Fall 2020 Supplemental Budget Adjustment meeting.

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 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 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 increase to the 2019-2022 Capital Budget for tax-supported operations of \$73.8 million, and a deficit of \$7.5 million in the balance of the corporate pool.

The increase in the capital budget for tax-supported operations is largely due to the addition of new projects funded through the provincial Municipal Stimulus Program capital funding as approved by City Council on September 21, 2020. Municipal

Stimulus Program funds were also used to fund previously approved projects that were being considered for reduction to manage one-time operating budget challenges. Original funding sources for these projects will remain unallocated and held within the respective reserves in case funding is required to manage future COVID-19 budget impacts.

This report also addresses the motion made by Council on May 25, 2020 to analyze the balance of the 2019 - 2022 capital budget and and bring forward prioritized infrastructure cutback scenarios to offset operating budget shortfalls resulting from the COVID-19 pandemic.

City Council approves adjustments to the Waste Services and Blatchford Renewable Energy Capital Budgets as part of separate reports which are scheduled to be presented to Utility Committee on December 4, 2020.

Report

2019-2022 Capital Budget Approved to Date

Council has approved \$9.70 billion in capital as part of the 2019-2022 capital budget cycle prior to adjustments proposed in the Fall 2020 SCBA. This includes \$7.29 billion of approved capital spending over the period of 2019 to 2022, and \$2.40 billion in 2023 and beyond. The approved capital budget is distributed across the City as follows: Tax-Supported Operations (\$9.44 billion), Waste Utility (\$216.2 million), Blatchford District Energy Utility (\$11.7 million), and Downtown District Energy Utility (\$27.9 million).

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

Recommended Fall 2020 SCBA Adjustments

No.	Budget Adjustment Type		Impact to 2019-2022 Capital Budget (\$millions)
3.1	New Profiles Recommended for Funding		\$1.3
3.2	Scope Changes		\$14.5
3.3	Recosting		\$(6.3)
3.7	Transfers from Capital to Operating		\$(1.4)
3.10	Municipal Stimulus Program (MSP) Funding:		
	Total Funding Allocation	\$115.6	
	Less: MSP applied to previously approved capital projects (Arterial Renewal and Neighbourhood Renewal)	\$(49.9)	

	originally funded from Pay-as-you-go/MSI and Neighbourhood Renewal funding.		
	Net increase in capital projects funded with MSP		\$65.7
	Total Fall 2020 SCBA Adjustments		\$73.8

The recommendations in the Fall 2020 SCBA would result in an overall \$73.8 million increase to the approved capital budget, largely due to the addition of new projects funded through the provincial Municipal Stimulus Program as approved by City Council on September 21, 2020 and other scope changes. Supplemental capital budget adjustments requiring Council approval are identified by category in the table above. A summary of the budget adjustments in each category is provided in Attachment 2, and the detailed adjustments for Council approval are in Attachment 3. New profiles recommended for funding are included in Attachment 4.

Municipal Stimulus Program Funding:

On July 28, 2020, the Government of Alberta announced the Municipal Stimulus Program (MSP) to provide additional capital infrastructure funding to municipalities with the objectives to “sustain and create local jobs; enhance provincial competitiveness and productivity; position communities to participate in future economic growth; and reduce municipal red-tape to promote job-creating private sector investment.” The City of Edmonton was allocated \$115.6 million from this program.

On September 21, 2020 City Council approved allocation of the funding for \$65.7 million in new projects and \$49.9 million for projects that were previously approved in the capital budget but were being considered for reduction to address operating budget shortfalls. The new projects include rural and industrial road upgrading, affordable housing, and open spaces. The projects that were being considered for reduction, but funded through MSP, were industrial neighbourhood rehabilitation overlays (\$17.0 million) and arterial renewal projects (\$32.9 million).

These specific Neighbourhood rehabilitation overlays and arterial renewal projects were originally funded through dedicated Neighbourhood Renewal tax-levy and pay-as-you-go respectively. As discussed with Council on September 21, these original funding sources will remain unallocated within their respective reserves and will provide flexibility to offset future operating budget impacts of COVID-19 as required. Accordingly, \$17.0 million would remain unallocated within the Neighbourhood Renewal Reserve and \$32.9 million previously allocated to arterial renewal would remain unallocated within the Pay-as-You-Go Capital Reserve. These changes are also included in Attachment 3.

In accordance with Policy *C595B Neighbourhood Renewal Program*, Neighbourhood renewal funds are limited to operating and capital expenditures related to the renewal

of neighbourhood residential, industrial and commercial collector, local and alley road right of way surface assets. Use or redirection of these funds for any other purpose (i.e., offsetting other budget challenges) would be considered a policy amendment and as such, in accordance with the policy, a non-statutory public hearing must be held.

There is significant uncertainty about the funding required to address future impacts of COVID-19. If required, Administration will formally request use of neighbourhood renewal funds to offset operating budget impacts of COVID-19.

Status of Available Capital Funding

Corporate Funding Pool - Changes in Available Funding		Corporate Funding \$ millions Available Funding/(Funding Deficit)
Funding Remaining Subsequent to Spring 2020 SCBA		\$(4.5)
<u>Adjustments to Funding Available Prior to Consideration of Fall 2020 SCBA:</u>		
Funding Forecast Adjustments	\$(10.6)	
Fall 2020 Administrative Adjustments	\$1.2	
COVID-19 Response 2020 - Transfer to Operating	\$(46.5)	
COVID-19 Response 2020 - Pre-committed 2023 PAYG	\$46.5	
Total Adjustments to Funding Available		\$(9.4)
Funding Available Prior to Consideration of Fall 2020 SCBA		\$(13.9)
<u>Fall 2020 SCBA Recommended Adjustments:</u>		
Funding Releases (Snow Plow and Clearing, Bus Safety and Security Enhancements)		\$6.4
Funding Available Subsequent to Consideration of Fall 2020 SCBA		\$(7.5)

At the conclusion of Council deliberations at the Spring 2020 SCBA, the corporate funding pool was in a deficit balance of negative \$4.5 million. Adjustments since that time have resulted in an additional \$9.4 million decrease in available funding, largely due to lower than expected investment earnings and other administrative adjustments.

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 Pay-As-You-Go Capital Reserve by \$46.5 million. The Pay-As-You-Go Capital Reserve will be reimbursed through application of pay-as-you-go funding in the 2023-2026 capital budget, resulting in a reduction of funded capital within the next

capital budget cycle with no overall impact to the corporate funding pool during the current cycle.

Prior to considerations in the Fall 2020 SCBA the corporate funding pool was over-allocated by a total of \$13.9 million (funding is in a deficit position).

Administration is monitoring the deficit in the capital funding pool and has explored opportunities to release funding from capital projects. The Fall 2020 SCBA recommendations would release \$6.4 million from capital projects where the funding is no longer required, reducing the funding deficit to \$7.5 million. Recommended funding releases are from the Snow Plow and Clearing profile (Calcium Chloride program), and Bus Safety and Security Enhancements (profile is under budget).

As the corporate funding pool is in a deficit position, Administration is not recommending any additional use of corporate funds at this time to preserve financial flexibility to respond to future COVID-19 impacts.

A detailed reconciliation of the adjustments and recommend changes to the corporate funding pool since the Spring 2020 SCBA are shown in Attachment 5.

Emerging Items

Emerging items (Attachment 6) include projects that Council has previously approved and funded, but 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 represent Administration's best estimate at this time.

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 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 unfunded projects since that time. The list also includes each unfunded project's current checkpoint status, and the checkpoint these projects were funded to in the original budget. In accordance with the Project Development and Delivery Model, projects that have reached Checkpoint 3 have completed planning and design work. The projects have been prioritized based on high-level operational criteria scoring methodology, resulting in low, medium, or high operational criteria ranking. The scoring does not include an assessment of the unfunded projects to the City Plan and goals as reflected in ConnectEdmonton. Administration is not recommending funding for any of the projects on this list.

Changes to Estimated Completion Dates

With Recommendation 2, Administration is proposing changes to the estimated completion dates of two capital profiles. These changes are based on Council having approved significant scope changes in previous supplemental capital budget adjustments after the original completion dates were set. Attachment 8 provides additional details.

Council/Committee Items Referred to Fall 2020 SCBA

In Attachment 9, Administration has provided responses to all Council/Committee motions requesting additional information for consideration at the Fall 2020 SCBA. This includes responses on the following items:

- Neighbourhood Renewal (Sidewalk Reconstruction)
- Ambleside Service Yard Project (response to be provided through the Spring 2021 Supplemental Capital Budget Adjustment)
- Land Acquisition - Metro LRT Blatchford to Campbell
- Affordable Housing - Capital Grants Adjustment
- LRT Station Winterization
- Coronation Community Recreation Centre Project

Capital Prioritization and Potential Reductions

At the May 25-27, 2020, City Council meeting, the following motion was passed for Administration to analyze the balance of the 2019-2022 capital budget and provide infrastructure cutback scenarios to offset operating budget shortfalls:

“That Administration:

2. analyze the balance of the 2019-2022 Capital Budget and bring forward prioritized infrastructure cutback scenarios to tax-funded discretionary (pay-as-you-go) and debt supported projects to transfer to offset ongoing operating budget shortfalls
3. apply the following principles to Part 2. above: that
 - a. cuts be prioritized based on growth before renewal and minimizing risk to critical assets like bridges,
 - b. the corresponding infrastructure deficit is in cosmetic or lower-risk areas where possible,
 - c. facility closures be considered, and
 - d. the leverage of discretionary dollars against time and provincial or federal grants be maintained where possible.”

The process and findings of this analysis are included in Attachment 10.

Prioritization Process and Potential Reductions

The analysis resulted in potential reductions to a group of growth projects and the Neighbourhood Renewal Program, for Council's consideration. The projects adhere to the principles provided in the motion passed by Council on May 25, 2020 as well as strategic and operational criteria applied by Administration. Based on the analysis, if required, \$24.3 million could be reduced from the remainder of the 2019-2022 capital growth budget and between \$24.0 million and \$54.5 million could be reduced from the Neighbourhood Renewal Program on a one-time basis to release operating contributions from the capital budget (i.e. pay-as-you-go and tax-levy). As noted above, use or redirection of these funds would be considered an amendment to Policy *C595B Neighbourhood Renewal Program* and would require a non-statutory public hearing.

Further reductions to the growth and renewal budgets can be considered as a part of the 2023-2026 capital budget.

Administration will be providing the COVID-19 2021 Financial Impacts and Funding Strategy report to Council prior to budget deliberations on December 7, 2020. This report will present the 2021 one-time budget impacts of COVID-19 and recommendations to manage the impacts through one-time budget strategies.

Since the capital prioritization motion was passed on May 25, funding has been committed from both the federal and provincial governments to mitigate the impacts of COVID-19 on the economy and the City's budget. Administration will recommend use of this external funding to best offset the 2021 COVID-19 one-time budget impacts. As the COVID-19 report will include the most up-to-date projections of the pandemic's financial effects, City Council can decide if further reductions to the capital budget are required based on the findings of the capital prioritization exercise or to support services on a one-time basis for 2021.

Facility Closures

The capital prioritization exercise included assessment of facility closures. The Fall 2020 Supplemental Operating Budget Adjustment, report FCS00078, includes recommended facility closures based on completed Program and Service Reviews on Recreational and Sport Facility Access/Recreation, Culture Programming, Road Services, and Parks and Open Spaces. Net operating budget savings as a result of closing these facilities are \$1.4 million on an ongoing basis, which include program and maintenance costs. They have been included as reduction strategies to achieve a zero percent tax increase for 2021 in the Fall 2020 Supplemental Operating Budget Adjustment. Future renewal costs avoided through closure of these facilities are conservatively estimated to be \$26.6 million. The renewal costs were not planned for in the 2019-2022 capital budget cycle so do not reduce the capital budget and are

estimates of basic rehabilitation over the next eight to ten years. A table of facility closures and total savings is included in Attachment 10.

If these facilities are approved for closure through the Fall 2020 Supplemental Operating Budget Adjustment, future plans for the facilities will be assessed through Reimagine and brought back for Council consideration. Assessment of all other facility assets will continue in 2021 and 2022 through the Reimagine work including, but not limited to, an analysis of the total cost of asset ownership, asset conditions and facility demand. Updates will be provided to Council on the progress of this work with supplemental adjustments to the operating and capital budgets as necessary.

Public Engagement

The City recognizes COVID-19's severe effects on employment and business revenue in Edmonton. Administration conducted an online survey to quantify these effects among property owners, business owners and the general public. The survey was open November 4 to 15, and results will be shared ahead of Council's budget deliberations beginning December 9.

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 SCBA at the Non-statutory Public Hearing on December 3, 2020.

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	<\$7.5> million (Projected results at the end of 2019-2022, pending approval of the Fall 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. Administration will continue to monitor the corporate funding pool and restrict its use to critical capital needs, and identify opportunities to release funds to the corporate pool where possible.

Attachments

1. Impact Summary
2. Summary of Fall 2020 SCBA Recommendations

3. Detailed Fall 2020 SCBA Adjustment Report
4. New Profiles Recommended for Funding
5. Corporate Funding Pool Balances - 2019-2020 Capital Budget Cycle
6. Emerging Items
7. Unfunded Projects List
8. Changes to Estimated Completion Dates
9. Previous Council/Committee Items Referred to Fall 2020 SCBA
10. Capital Prioritization

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