

Proposed 2019 - 2022 Capital Budget

Recommendation

That the 2019-2022 Capital Budget for tax-supported operations in the amount of \$5.156 billion, as outlined in Attachment 1 of the October 23, 2018, Financial and Corporate Services report CR_6388, comprised of \$4.305 billion in 2019-2022 and \$0.851 billion in 2023 and beyond, be approved.

Previous Council/Committee Action

At the October 23/24, 2018, City Council meeting, the following motion was passed:

That the October 23, 2018, Financial and Corporate Services report CR_6388 be postponed to the November 28, 2018, City Council Budget meeting.

Executive Summary

This report provides the Proposed 2019-2022 Capital Budget for tax-supported operations. The Capital Budget is the mechanism through which City Council prioritizes and allocates funding to build and renew facilities and infrastructure residents require to live, work and prosper in their community.

The City's Capital Budget is highly dependent on grant funding, both for the maintenance of existing infrastructure and for major strategic projects such as LRT expansion. The City of Edmonton operates in an environment of ever-present financial uncertainty around the security and stability of provincial and federal capital grants. The Municipal Sustainability Initiative (MSI) program is scheduled to end in 2021, and the Province is engaging with its two big cities — Edmonton and Calgary — on formulating an alternative program as part of the negotiations on the City Charter Fiscal Framework. At this time, it is uncertain what type of program could replace MSI transfer funding, or whether these changes would present positive or negative impacts to the City's capital planning program. This capital budget reflects funding reductions in the Municipal Sustainability Initiative (MSI) announced as part of the 2018 Provincial Budget.

Report

Administration has prepared the Proposed 2019-2022 Capital Budget in accordance with the Council approved *Multi-year Budgeting Policy (C578)* approved on September 9, 2014. The Policy directs the City to undertake a multi-year approach to budgeting

for operating and capital programs and services with the end of the term of the multi-year budget to align with the calendar year end of the year after the year in which a new Council is elected. The most recent multi-year capital budget was approved by Council for the four year period 2015-2018.

The Proposed 2019-2022 Capital Budget for tax-supported operations, as outlined in Attachment 1, is \$5.156 billion in total, comprised of \$4.305 billion of expenditures in 2019-2022 and \$0.851 billion of expenditures in 2023 and beyond. Council has already approved through previous decisions \$1.924 billion of the expenditures for 2019-2022 and \$0.825 billion of the expenditures for 2023 and beyond, leaving new funding requests of \$2.381 billion for 2019-2022 and \$0.026 billion for 2023 and beyond.

The foundation of the Proposed 2019-2022 Capital Budget is the 2019-2028 Capital Investment Outlook (CIO), a high level overview of the City's capital investment requirements over the next 10 years. The 10-year CIO was presented by Administration to City Council on April 27, 2018. The direction and guidance received from Council, including the need to continue to invest in the renewal of the City's existing infrastructure, has been incorporated into the development of the Proposed 2019-2022 Capital Budget.

The Proposed 2019-2022 Capital Budget balances the infrastructure investment required to maintain existing assets in good repair while supporting ongoing growth needs. Approximately 45 percent (\$1.951 billion) of the proposed 2019-2022 capital expenditures (\$4.305 billion) is earmarked for the renewal of existing infrastructure, including roads, neighbourhoods, parks, City-owned buildings and fleet, with the remaining 55 percent (\$2.354 billion) being recommended to support planning and delivery of new infrastructure.

Included in the \$2.354 billion of proposed expenditures for new infrastructure in 2019-2022 are:

- \$1.806 billion for the continuation of transformational and other projects previously approved by Council. These projects include the continued development and delivery in 2019-2022 of the Valley Line Southeast LRT, Yellowhead Trail Freeway Conversion, Fort Edmonton Park Utilities and Enhancements, and Blatchford Redevelopment;
- \$0.306 billion of proposed new growth projects being recommended by Administration that are tied to constrained funding sources in 2019-2022 (which is funding that can only be used for specific projects); and

- \$0.241 billion of proposed new growth projects being recommended by Administration from the remaining available unconstrained funding sources in 2019-2022 (which is funding available at Council's discretion with no restrictions, and can be used for a variety of infrastructure requirements).

As part of deliberations in late November and early December 2018, Council will ultimately determine the extent to which investment is made in each new growth project given the limited available funding. The proposed new growth projects being recommended by Administration in 2019-2022 are based on capital planning principles and prioritization criteria used in previous budget cycles and reaffirmed by City Council on June 26, 2018. These proposed projects were further assessed by Administration on the basis of timing and synergies with other projects, relevance to current issues, integration with renewal, addressing occupational and health safety issues, and external influences.

The City of Edmonton funds its capital program from a number of sources. Transformation projects noted above support the advancement of Council's strategic goals and are being advanced primarily through a combination of key Provincial and Federal grant programs together with debt financing. Other revenue sources include the neighborhood tax levy, local improvement funding, community/partner funding, and pay-as-you-go which includes both property taxes and investment income.

Administration has not included the issuance of debt to finance any new proposed projects in the Proposed 2019-2022 Capital Budget. A list of projects has been included in Attachment 1, which were rated as important to the City through the corporate prioritization process. Due to the limited funding available in this budget, these projects would only be recommended for debt-financing should Council choose to proceed by granting its approval.

Despite the significant investments made in this budget, the City is challenged by reductions in Provincial funding. The Municipal Sustainability Initiative (MSI) funding is a key component in the ability of the City to continue to keep its existing assets in good repair. Approximately 82 percent of the MSI funding received in 2015-2018 was used for the renewal of the City's existing infrastructure. The funding received under the current MSI agreement was reduced by \$61 million per year beginning in 2018 and expires at the end of 2021. This Proposed 2019-2022 Capital Budget assumes MSI funding will be replaced in 2022, and has incorporated a projected amount of funding

in that year which will be comparable to the amount allocated in 2021. The City continues to have ongoing discussions with the Province as to the specifics of what this new funding will be.

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)
The City of Edmonton has a resilient financial position.	City Asset Sustainability (actual expenditure on capital infrastructure divided by required expenditure)	0.94 (2017)	1.00 (2018)
Corporate Outcome(s): The City of Edmonton has sustainable and accessible infrastructure.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
The City of Edmonton has sustainable and accessible infrastructure.	Edmontonians' Assessment: Access to Infrastructure, Amenities and Services that Improve Quality of Life (percent of survey respondents who agree/strongly agree)	68% (2017)	70% (2018)

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations

Financial	Material variance in projected capital funding amounts included in 2019-2022 Capital Budget	2 - Unlikely	3 - Major	6 - Low	Project specific grant funding included in 2019-2022 Budget has been committed / awarded, ongoing discussions between City and Province to replace current MSI program, investment income is governed by Investment Policy C212D.	2019-2022 Capital Budget will be amended for changes in available funding, project needs, priorities and emerging issues as part of the Supplemental Budget Adjustment process.
Project Management	Material variance in scope, schedule and cost of a capital project included in 2019-2022 Capital Budget	2 - Unlikely	3 - Major	6 - Low	Capital Governance Policy C591 requires all capital projects to follow the Project Development and Delivery Model (including formal checkpoints as the projects progress through the strategy, concept, design, build and operate stages).	2019-2022 Capital Budget will be amended for changes in available funding, project needs, priorities and emerging issues as part of the Supplemental Budget Adjustment process.

Attachments

1. Proposed 2019-2022 Capital Budget
2. Proposed 2019-2022 Capital Budget - Appendix A
3. Proposed 2019-2022 Capital Budget - Appendix B
4. Proposed 2019-2022 Capital Budget - Appendix C
5. Proposed 2019-2022 Capital Budget - Appendix D
6. Proposed 2019-2022 Capital Budget - Appendix E

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- K. Armstrong, Deputy City Manager, Employee Services
- R. Smyth, Deputy City Manager, Citizen Services

- P. Ross, Acting Deputy City Manager, Urban Form and Corporate Strategic Development