

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON SEPTEMBER 10, 2013
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2013 CAPITAL BUDGET STATUS – SECOND QUARTER REPORT

RECOMMENDATION

That on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following actions be taken:

1. The 2013 Capital Budget Status - Second Quarter Report **BE RECEIVED** for information.
2. The capital projects listed in **Appendix A** with a total of \$6.4 million of net surplus funding **BE CLOSED** and that the following actions be taken:
 - a. reserve fund draws of \$5,110,629.97 **BE TRANSFERRED** back to the reserve funds which originally funded the projects;
 - b. pay-as-you-go funding of \$528,925.20 **BE TRANSFERRED** to the capital receipts account; and,
 - c. debt financing of \$747,433.94 **BE USED** to reduce authorized but unissued debt.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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2012 Capital Budget Status - Fourth Quarter Report (Corporate Services Committee – April 9, 2013) <http://sire.london.ca/aqdocs.aspx?doctype=agenda&itemid=19169>

BACKGROUND

On a quarterly basis, Financial Planning & Policy (FP&P) presents a report on the status of the capital budget. This quarterly report includes an update on life-to-date approved capital spending, capital cash flow, debt status and year to date capital budget revisions. Once a year, FP&P also reports out on capital projects that were closed during the year, with a recommendation to transfer back or draw down additional funds from reserve funds, capital receipts (pay-as-you-go) or debt.

Life-to-Date Project Budget Status

At the end of the second quarter 2013, only one project was over budget by more than \$50,000. Capital Project TS1498 - Hale/Trafalgar Street Overpass is over budget by \$392,825, noting that this \$16.1 million project was approximately two-thirds supported by stimulus funding. The overrun is due to construction issues but will be partly mitigated by outstanding property sales and billing issues with CN Rail. A summary of the capital budget status as at the second quarter is provided in **Table One** (see below). The chart represents the life to date approved capital budget (2013 and prior years), committed expenditures to date and uncommitted or pending expenditures.

Table One			
(\$ millions)	Life to Date Approved Budget	Committed	Uncommitted or pending (1)
Tax Supported	746.2	550.1	196.0
Wastewater	383.2	229.7	153.5
Water	162.7	127.3	35.3
Total	1,292.1	907.2	384.9
Totals above are for active projects only; projects closed during the course of the year are deducted from this table. Numbers are subject to rounding.			

Note (1) - Once a capital project has an approved budget, spending or commitments may not be made for several years, for example the south-east and south-west multi-purpose recreation centres. Ongoing review and monitoring of capital projects will identify projects that should be closed, because the project is completed and/or the project is no longer required due to a scope change. A detailed (project by project) listing of the capital budget status at the end of the second quarter is available upon request.

Capital Monitoring - Completed (Closed) Capital Projects

Details on the budget impact of completed (closed) projects are provided in the attached **Appendices A and B - Completed Capital Projects**. Projects in **Appendix A** must be closed by Council authority. Projects in **Appendix B** can be closed by administration. The completed projects were under budget in total and therefore, subject to Council approval of the recommendations:

- budgeted reserve fund draws are reduced by \$5,110,630, of which \$2.7 million is being returned to tax supported reserve funds (notably \$1.0 million to the Parklands Acquisition Reserve Fund and \$1.1 million to the Sewage Works Reserve Fund) and \$2.4 million is being returned to City Services / Urban Works reserve funds (notably \$0.7 million to the City Services–Roads and \$1.2 million to the City Services–Sewer);
- the capital receipts balance is increased by \$528,925; and,
- debt financing of \$747,434 will be cancelled through the reduction of authorized debt.

Table Two				
Net Impact of Completed Capital Projects - Surplus/(Deficit)				
	General	Wastewater	Water	Total
Debt				
Appendix A	192,966	307,068	247,400	747,434
Appendix B	0	0	0	0
Total Debt	192,966	307,068	247,400	747,434
Capital Receipts				
Appendix A	528,925	0	0	528,925
Appendix B	0	0	0	0
Total Capital Receipts	528,925	0	0	528,925
Reserve Funds				
Appendix A	2,105,810	2,969,117	35,703	5,110,630
Appendix B	1	2	2	5
Total Reserve Funds	2,105,811	2,969,119	35,705	5,110,635
Total Appendix A	2,827,701	3,276,185	283,103	6,386,989
Total Appendix B	1	2	2	5
Grand Total	2,827,702	3,276,187	283,105	6,386,994

Capital Cash Flow

The following information for Capital Spending, Capital Funding and Working Capital for interim financing provides relevant information for investment and debt issuance decisions.

Capital Spending

Spending on capital projects can extend several years after the budget is approved by Council. Spending within a given year is therefore a layering of several capital projects approved in various years and at various stages. Capital spending in a given year is not necessarily the same as the capital budget for that year. In any given year, total capital spending tends to be greater during the latter part of the year as construction invoices are received, approved and paid.

At the end of the second quarter for 2013, the total **capital spending** was **\$40.5 million** compared to \$42.0 million in 2012. These amounts exclude capital spending by the Joint Water Boards.

Capital Funding (Sources of Financing)

The funds or sources of financing that will support the capital budget are approved at the same time as the capital expenditure. The main sources of capital funding include capital levy, reserve funds (rate and DC supported), debentures, and government grants. Capital funding sources such as debentures and grants often lag behind project spending. Debentures are not issued until the project is substantially completed.

Use of Working Capital for Interim Financing

If actual capital spending on projects temporarily exceeds funding which has been approved but not yet received (e.g. debentures pending issuance), then it is referred to as "unfinanced capital". In the short term, "borrowing" cash from working capital, either the general fund or reserve funds, supports capital spending. Most of the unfinanced amount is associated with debenture financing. At the end of the second quarter of 2013, **unfinanced capital** totalled **\$6.7 million** (compared to \$59.7 million in 2012). This amount excludes capital spending by the Joint Water Boards and non-cash items. Since June 30, 2012, the City issued approximately \$49 million of debt (excluding refinancing of \$8.7 million and debt issued on behalf of the Joint Water Boards of \$12.3 million), significantly reducing the amount of unfinanced capital from the previous year.

This level of unfinanced capital has proven to be manageable given the short term financing available from general and reserve funds. It is important to keep reserves/reserve funds at a healthy level in order to take advantage of interim working capital financing for projects or programs that require debt financing.

Debt Status

The table below details the City's overall debt level projection for the end of 2013.

2nd QUARTER Debt Level Projection for 2013 (\$ millions)						
	Dec 31, 2012 (A)	To Be Issued 2013 (B)	To Be Retired 2013	Dec 31, 2013	Authorized 2013	Total Potential
General Property Taxes	195.6	34.7	27.6	202.7	92.2	294.9
Wastewater	85.9	2.1	8.9	79.1	36.1	115.2
Water	1.9	1.0	0.2	2.7	0.5	3.2
Reserve Funds Supported	30.9	3.3	4.2	30.0	20.9	50.9
Subtotal	314.3	41.1	40.9	314.5	149.7	464.2
Joint Water Boards - City's Share	9.4	1.3	1.0	9.7	27.3	37.0
City Services Reserve Funds	23.8	7.4	2.8	28.4	56.3	84.7
Total	347.4	49.8	44.7	352.5	233.3	585.8

Note A: Outstanding debt level is net of unamortized debenture discount and agrees to audited financial statements.

Note B: To be issued does not include approximately \$0.2 million that is attributed to the Joint Water Boards Share of debt issued by the City on their behalf.

Amounts are subject to rounding.

2013 Capital Budget – Capital Budget Revisions

Summaries of the 2013 General, Wastewater, and Water Capital Budget revisions as at the end of the second quarter are provided in **Appendix C**.

The General Capital Budget increased from \$101.0 million to \$103.4 million at the end of the second quarter, mainly due to:

- (\$0.5) million reduction to the Hwy 401 Interchange project (MTO contribution)
- \$1.6 million increase for the Innovation Park, Phase 2 Grading
- \$0.7 million to establish budget for the purchase of LHSC lands
- \$0.6 million for other projects

The 2013 Wastewater Capital Budget increased from \$54.4 million to \$56.4 million mainly due to recognition of the \$4.7 million contribution from FedDev for the Southern Ontario Water Consortium-London Wastewater Facility (LWF), budget increase from private drain connections and local improvements (homeowner’s share) \$0.3 million, a budget increase to Old Victoria #2 SWM Facility \$1.4 million offset by the deferral of River Bend Tributary ‘C’ and Murray Marr SWM Facility (-\$4.4 million) total.

The 2013 Water Capital Budget decreased from \$26.7 million to \$24.9 million mainly due to budget reductions for Oxford Street W Feeder watermain (-\$1.2 million), Southdale West Main Replacement (-\$0.25 million), Royal York watermain (-\$0.25 million) and Wellington Rd watermain (-\$0.1 million); noting that actual costs came in under budget for these projects.

Acknowledgements

This report was prepared with support from Annette Ripepi from Financial Planning & Policy.

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