

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

RECOMMENDATION

That on the recommendation of the City Treasurer and Chief Financial Officer, the 2013 Capital Budget Status - Third Quarter Report **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

2013 Capital Budget Status - Second Quarter Report (Corporate Services Committee – September 10, 2013) <http://sire.london.ca/agdocs.aspx?doctype=agenda&itemid=21914>

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 third quarter 2013, only one project was over budget by more than \$50,000. Capital Project TS1498 - Hale/Trafalgar Street Overpass is over budget by \$371,082, noting that this \$16.1 million project was approximately two-thirds supported by stimulus funding. The overrun can be attributed to:

- The size and complexity of this project. It was designed to accommodate the intersection of three roads and was London's first major roundabout.
- There were complications ensuring the CN tracks remained open during construction.
- An additional storm sewer system was added after tendering.
- Additional landscaping and a camera were added after original costing.

The overrun will be partly mitigated by outstanding property sales, billing issues with CN Rail, and unused contingencies. The project manager will request a source of financing for the deficit once the outstanding issues are resolved some time in 2014.

A summary of the capital budget status as at the third 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	725.4	549.8	175.6
Wastewater	383.0	235.6	147.4
Water	160.1	127.9	32.2
Total	1,268.5	913.2	355.3
Totals above are for active projects only; projects closed during the course of the year are deducted from this table. Numbers 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 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 third quarter is available upon request.

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 third quarter for 2013, the total **capital spending** was **\$98.3 million** compared to \$88.5 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. Debt is not issued until the project is 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. 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. Most of the unfinanced capital amount is associated with debenture financing.

At the end of the third quarter of 2013, there was no **unfinanced capital** compared to \$19.4 million in 2012. On September 3, 2013, the City issued approximately \$48.5 million of debt (excluding \$1.5 million of debt issued on behalf of the Joint Water Boards), eliminating the need for unfinanced capital at this point in time. As capital spending for projects continues throughout the remainder of the year and into the next, unfinanced capital is expected to increase until the City proceeds with its next debenture issuance, which is anticipated for the summer of 2014, to permanently finance completed capital projects.

Debt Status

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

3rd QUARTER Debt Level Projection for 2013 (\$ millions)						
	Dec 31, 2012 (A)	Issued in 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: Issued in 2013 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 third quarter are provided in **Appendix A**.

The General Capital Budget increased from \$101.0 million to \$104.2 million at the end of the third 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
- \$0.4 million to establish budget for the Ontario Works Decentralization-SLCC
- \$0.2 million to establish budget for the Thames River Reach Study
- \$0.8 million for other projects

The 2013 Wastewater Capital Budget increased from \$54.4 million to \$55.9 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

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