

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 8, 2014</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>2013 CAPITAL BUDGET STATUS – FOURTH QUARTER REPORT</b>

<b>RECOMMENDATION</b>
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That on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the 2013 Capital Budget Status - Fourth Quarter Report **BE RECEIVED** for information.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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**2013 Capital Budget Status - Third Quarter Report** (Corporate Services Committee – December 10, 2013)  
<http://sire.london.ca/agdocs.aspx?doctype=agenda&itemid=23320>

<b>BACKGROUND</b>
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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, with the second quarter report, 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 fourth quarter 2013, two projects were over budget by more than \$50,000. Capital Project TS1480 – Springbank Drive Widening from Wonderland to Horton is over budget by \$132,755 due to outstanding property expropriations.

Capital Project TS1498 - Hale/Trafalgar Street Overpass is over budget by \$445,478, 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 for both projects 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 fourth 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.

<b>Table One</b>			
<b>(\$ millions)</b>	<b>Life to Date Approved Budget</b>	<b>Committed</b>	<b>Uncommitted or pending (1)</b>
Tax Supported	750.0	583.1	166.9
Wastewater	372.9	240.4	132.5
Water	160.1	130.1	30.0
<b>Total</b>	<b>1,283.0</b>	<b>953.5</b>	<b>329.4</b>
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 fourth 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 fourth quarter for 2013, the total **capital spending** was **\$157.8 million**, compared to \$155.4 million in 2012. These amounts exclude 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 fourth quarter of 2013, there was no **unfinanced capital** compared to \$12.2 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 2014, 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 for the end of 2013.

	Dec 31, 2012 (A)	Issued in 2013 (B)	To Be Retired 2013	Dec 31, 2013 (C)	Authorized 2013	Total Potential
General Property Taxes	195.6	34.7	27.6	202.7	87.6	290.3
Wastewater	85.9	2.1	8.9	79.1	34.1	113.2
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
<b>Subtotal</b>	<b>314.3</b>	<b>41.1</b>	<b>40.9</b>	<b>314.5</b>	<b>143.1</b>	<b>457.6</b>
Joint Water Boards - City's Share	9.4	1.3	1.0	9.7	27.0	36.7
City Services Reserve Funds	23.8	7.4	2.8	28.4	55.4	83.8
<b>Total</b>	<b>347.4</b>	<b>49.8</b>	<b>44.7</b>	<b>352.5</b>	<b>225.5</b>	<b>578.0</b>
<b>Note A:</b> Outstanding debt level is net of unamortized debenture discount and agrees to audited financial statements.						
<b>Note B:</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.						
<b>Note C:</b> Outstanding debt level at Dec 31, 2013 is subject to completion of 2013 financial statement audit. 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 fourth quarter are provided in **Appendix A**.

The General Capital Budget increased from \$101.0 million to \$109.9 million at the end of the fourth quarter, mainly due to:

- \$1.9 million to establish budget for ITS network modernization project
- \$1.8 million to establish budget for the purchase of 280 York and 340 Wellington Street
- \$1.6 million increase for the Innovation Park, Phase 2 Grading
- \$1.6 million for other various projects
- \$0.7 million to establish budget for the purchase of LHSC lands
- \$0.6 million increase for the Corporate Asset Management project
- \$0.5 million to establish budget for mothballing the Colborne and War Memorial buildings at the South Street Campus Decommissioning
- \$0.4 million to establish budget for the Ontario Works Decentralization – South London
- \$0.4 million to establish budget for the Ontario Works Decentralization – Northeast
- (\$0.5) million reduction to the Hwy 401 Interchange project (MTO contribution)

The 2013 Wastewater Capital Budget decreased from \$54.4 million to \$45.8 million mainly due to:

- \$4.7 million for recognition of the contribution from FedDev for the Southern Ontario Water Consortium-London Wastewater Facility (LWF)
- \$1.4 million increase for Old Victoria #2 SWM Facility
- \$0.4 million increase from private drain connections and local improvements (homeowner's share)
- (\$10.1 million) reduction to various capital projects to partially fund the Greenway Expansion project identified in the 2014 Wastewater & Treatment Budget
- (\$4.4 million) reduction for the deferral of River Bend Tributary 'C' and Murray Marr SWM Facility
- (\$0.5 million) reduction to the Southdale Road widening sanitary relocation, noting that actual costs came in under budget for this project
- (\$0.2 million) reduction for various minor adjustments

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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