

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON AUGUST 26, 2014
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2014 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 2014 Capital Budget Status - Second Quarter Report **BE RECEIVED** for information.
2. The capital projects listed in **Appendix A** with a total of \$7.6 million of net surplus funding **BE CLOSED** and that the following actions be taken:
 - a. reserve fund draws of \$6,535,240.67 **BE TRANSFERRED** back to the reserve funds which originally funded the projects;
 - b. pay-as-you-go funding of \$696,309.03 **BE TRANSFERRED** to the capital receipts account; and,
 - c. authorized debt financing of \$410,634.34 **BE RELEASED** resulting in a reduction of authorized debt.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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2013 Capital Budget Status - Fourth Quarter Report (Corporate Services Committee – April 8, 2014) <http://sire.london.ca/agdocs.aspx?doctype=agenda&itemid=26318>

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, 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 second quarter 2014, one project was over budget by more than \$50,000. Capital Project TS1480 – Springbank Drive Widening from Wonderland to Horton is over budget by \$421,376 due to outstanding property expropriations.

The project manager for this project will request a source of financing for the deficit once the outstanding issues are resolved.

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 (2014 and prior years), committed expenditures to date and uncommitted or pending expenditures.

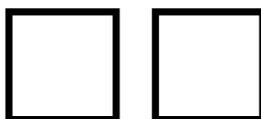


Table One			
(\$ millions)	Life to Date Approved Budget	Committed	Uncommitted or pending (1)
Tax Supported	795.5	588.8	206.7
Wastewater	419.0	265.9	153.1
Water	160.9	131.8	29.1
Total	1,375.4	986.5	388.9

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 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 \$6,535,249, of which \$3.1 million is being returned to tax supported reserve funds (notably \$1.5 million to the Economic Development Reserve Fund and \$1.1 million to the Capital Water Reserve Fund) and \$3.4 million is being returned to City Services reserve funds (notably \$1.6 million to the City Services–Roads and \$0.9 million to the City Services-Water);
- the capital receipts balance is increased by \$696,309; and,
- debt financing of \$410,634 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	16,861	393,773	0	410,634
Appendix B	0	0	0	0
Total Debt	16,861	393,773	0	410,634
Capital Receipts				
Appendix A	696,309	0	0	696,309
Appendix B	0	0	0	0
Total Capital Receipts	696,309	0	0	696,309
Reserve Funds				
Appendix A	3,140,868	1,191,451	2,202,922	6,535,241
Appendix B	1	5	2	8
Total Reserve Funds	3,140,869	1,191,456	2,202,924	6,535,249
Total Appendix A	3,854,038	1,585,224	2,202,922	7,642,184
Total Appendix B	1	5	2	8
Grand Total	3,854,039	1,585,228	2,202,925	7,642,192

Development Charges Background Study

The 2014 Development Charges Background Study and By-law was approved by Municipal Council on June 24, 2014 and was enacted on August 4, 2014. This study saw a shift in the growth share of the 2014 budgets for some projects, especially related to water, wastewater and roads. These changes will be reflected and noted in the 2015 budget.



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 2014, the total **capital spending** was **\$43.9 million** compared to \$40.5 million in 2013. 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. 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. 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.

At the end of the second quarter of 2014, there was no **unfinanced capital** compared to \$6.7 million in 2013. On May 9, 2014, the City issued a \$30 million debenture, 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 spring of 2015, to permanently finance completed capital projects.

Debt Status

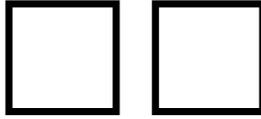
The table below details the City's overall debt level projection for the end of 2014.

2nd QUARTER Debt Level Projection for 2014 (\$ millions)						
	Dec 31, 2013 (A)	Issued in 2014	To Be Retired 2014	Dec 31, 2014 (B)	Authorized 2014	Total Potential
General Property Taxes	202.5	16.3	28.0	190.8	95.3	286.1
Wastewater	79.1	3.5	8.3	74.3	30.5	104.8
Water	2.7	-	0.3	2.4	0.5	2.9
Reserve Funds Supported	30.0	4.4	3.9	30.5	16.5	47.0
Subtotal	314.3	24.2	40.5	298.0	142.8	440.8
Joint Water Boards - City's Share	9.8	-	1.1	8.7	22.5	31.2
City Services Reserve Funds	28.3	5.8	3.3	30.8	70.9	101.7
Total	352.4	30.0	44.9	337.5	236.2	573.7

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

Note B: Outstanding debt level at Dec 31, 2014 is subject to completion of 2014 financial statement audit.

Amounts are subject to rounding.



2014 Capital Budget – Capital Budget Revisions

Summaries of the 2014 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 \$116.0 million to \$126.5 million at the end of the second quarter, mainly due to:

- \$6.1 million to establish budget for Ontario Works Decentralization-South
- \$2.4 million to establish budget for Normal School
- \$1.3 million to establish budget for the purchase of Sherwood Forest School
- \$0.7 million for other projects

The 2014 Wastewater Capital Budget increased from \$65.7 million to \$65.8 million mainly due to budget increases from private drain connections and local improvements (homeowner’s share) and developer contributions to establish budgets for three storm water projects, offset by substituting owner’s share with rate supported funding with respect to the Hyde Park Industrial Park (-\$1.1 million).

The 2014 Water Capital Budget increased from \$27.7 million to \$28.2 million mainly due to HELP funding in the amount of \$1.6 million being reallocated to the SE Reservoir offset by a reduction to the rate supported budget by (-\$1.1 million) for a net increase of \$.5 million.

Acknowledgements

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