

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON DECEMBER 1, 2015</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>2015 CAPITAL BUDGET STATUS – THIRD 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 following actions be taken:

1. The 2015 Capital Budget Status - Third Quarter Report **BE RECEIVED** for information.
2. The capital projects listed in **Appendix A** with a total of \$17.9 million of net surplus funding **BE CLOSED** and that the following actions be taken:
  - a. reserve fund draws of \$11,710,607.86 **BE TRANSFERRED** back to the reserve funds which originally funded the projects;
  - b. pay-as-you-go funding of \$109,339.31 **BE TRANSFERRED** to the capital receipts account; and,
  - c. authorized debt financing of \$6,032,887.41 **BE RELEASED** resulting in a reduction of authorized debt.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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**2014 Capital Budget Status - Fourth Quarter Report** (Corporate Services Committee – April 7, 2015) <http://sire.london.ca/agdocs.aspx?doctype=agenda&itemid=33032>

<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 third 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 third quarter 2015, no projects were over budget by more than \$50,000.

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 (2015 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	752.7	550.6	202.1
Wastewater	447.5	288.5	159.0
Water	170.2	136.4	33.8
<b>Total</b>	<b>1,370.4</b>	<b>975.5</b>	<b>394.9</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 third 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 \$11,710,607.86 of which \$6.9 million is being returned to tax/rate supported reserve funds (notably \$0.8 million to Economic Development Reserve Fund, \$0.8 million to the Vehicle and Equipment Reserve Fund, \$1.5 million to Sewage Works Reserve Fund and \$1.5 million to the Capital Water Reserve Fund) and \$5.3 million is being returned to City Services reserve funds (notably \$4.4 million to the City Services-SWM and \$0.7 million to the City Services-Roads);
- the capital receipts balance is increased by \$109,339.31, and,
- debt financing of \$6,032,887 will be cancelled through the reduction of authorized debt.

It should be noted Capital Project PP4460 – London Police Facilities Expansion project was over budget by \$599,924 due to unanticipated costs resulting from legal matters. The total approved budget for this project was \$33.8 million dollars with actual costs of \$34.4 million.

<b>Table Two</b>				
<b>Net Impact of Completed Capital Projects - Surplus/(Deficit)</b>				
	<b>General</b>	<b>Wastewater</b>	<b>Water</b>	<b>Total</b>
<b>Debt</b>				
Appendix A	626,944	5,405,943	0	6,032,887
Appendix B	2	0	0	2
<b>Total Debt</b>	<b>626,946</b>	<b>5,405,943</b>	<b>0</b>	<b>6,032,889</b>
<b>Capital Receipts</b>				
Appendix A	109,339	0	0	109,339
Appendix B	9	0	0	9
<b>Total Capital Receipts</b>	<b>109,348</b>	<b>0</b>	<b>0</b>	<b>109,348</b>
<b>Reserve Funds</b>				
Appendix A	1,721,092	7,339,921	2,649,595	11,710,608
Appendix B	(1)	0	1	1
<b>Total Reserve Funds</b>	<b>1,721,092</b>	<b>7,339,922</b>	<b>2,649,595</b>	<b>11,710,609</b>
Total Appendix A	2,457,376	12,745,864	2,649,595	17,852,835
Total Appendix B	10	0	1	11
<b>Grand Total</b>	<b>2,457,385</b>	<b>12,745,865</b>	<b>2,649,596</b>	<b>17,852,846</b>

## 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 2015, the total **capital spending** was **\$56.5 million** compared to \$58.1 million in 2014. 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.

### Debt Status

The table below details the City's overall debt level projection for the end of 2015.

3 <sup>rd</sup> QUARTER Debt Level Projection for 2015 (\$ millions)						
	Dec 31, 2014 (A)	Issued in 2015	Retired in 2015	Dec 31, 2015 (B)	Authorized 2015	Total Potential
General Property Taxes	191.7	19.6	26.8	184.5	92.5	277.0
Wastewater	74.5	4.0	8.0	70.5	22.1	92.6
Water	2.4	-	0.3	2.1	0.5	2.6
Rate Supported Reserve Funds	30.7	-	3.9	26.8	16.6	43.4
<b>Subtotal</b>	<b>299.3</b>	<b>23.6</b>	<b>39.0</b>	<b>283.9</b>	<b>131.7</b>	<b>415.6</b>
Joint Water Boards - City's Share	8.7	7.3	1.2	14.8	15.1	29.9
City Services Reserve Funds	31.0	8.3	3.9	35.4	87.7	123.1
<b>Total</b>	<b>339.0</b>	<b>39.2</b>	<b>44.1</b>	<b>334.1</b>	<b>234.5</b>	<b>568.6</b>
<b>Note A:</b> Agrees to audited financial statements.						
<b>Note B:</b> Outstanding debt level is subject to completion of 2015 financial statement audit.						
<b>Amounts are subject to rounding.</b>						

### 2015 Capital Budget – Capital Budget Revisions

Summaries of the 2015 General, Wastewater, and Water Capital Budget revisions as at the end of the third quarter are provided in **Appendix C**.

The General Capital Budget increased from \$128.4 million to \$139.7 million at the end of the third quarter, mainly due to:

- \$2.4 million to establish budget for demolition at Old Victoria Hospital Lands Phase 2
- \$6.4 million to establish budget for renovation work at the Normal School
- \$6.0 million to establish budget for the installation of LED Street Light Upgrade
- (\$3.3) million reduction for eliminating the 2/3 Senior Government funding for the Industrial Land Development Strategy
- (\$0.2) million budget reductions for other projects

The 2015 Wastewater Capital Budget decreased from \$77.6 million to \$71.4 million due to budget increases from private drain connections and local improvements (homeowner's share) (\$1.4 million) offset by the elimination of the 2/3 Senior Government funding for the Wastewater

Industrial Land Development Strategy projects (-\$5.4 million) and the cancellation of the Dingman Creek SWM Facility project (-\$2.2 million).

The 2015 Water Capital Budget decreased from \$29.9 million to \$29.1 million mainly due to the elimination of the 2/3 Senior Government funding for the Water Industrial Land Development Strategy projects.

**Acknowledgements**

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<b>Prepared By:</b>	<b>Reviewed By:</b>
<b>Marta Semeniuk, Capital Budget Officer</b>	<b>Alan Dunbar, Manager, Financial Planning &amp; Policy</b>
<b>Concurred By:</b>	<b>Recommended By:</b>
<b>Larry Palarchio, Director of Financial Planning &amp; Policy</b>	<b>Martin Hayward, Managing Director, Corporate Services and City Treasurer, Chief Financial Officer</b>