

<b>TO:</b>	<b>CHAIR AND MEMBERS FINANCE AND ADMINISTRATIVE SERVICES COMMITTEE MEETING ON NOVEMBER 26, 2012</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>2012 CAPITAL BUDGET STATUS – THIRD QUARTER REPORT</b>

### **RECOMMENDATION**

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

1. The 2012 Capital Budget Status - Third Quarter Report **BE RECEIVED** for information.
2. The capital projects listed in **Appendix A** worth a total of \$3.5 million funding **BE CLOSED** and that the following actions **BE TAKEN**:
  - a. Reserve fund draws released of \$1,869,732 be transferred back to the reserve funds which originally funded the projects;
  - b. Pay-as-you-go funding released of \$375,270 be transferred to the capital receipts account; and,
  - c. Debt financing released of \$1,221,433 be used to reduce authorized debt.

### **PREVIOUS REPORTS PERTINENT TO THIS MATTER**

**2012 Capital Budget Status - Second Quarter Report** (Finance & Admin Committee – September 4, 2012) <http://sire.london.ca/agdocs.aspx?doctype=agenda&itemid=13318>

### **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 2012, only one project was over budget by more than \$50,000. Capital Project TS1498 - Hale/Trafalgar Street Overpass is over budget by \$613,782, 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 third quarter is provided in **Table One** (see below). The chart represents the life to date approved capital budget (2012 and prior years), committed expenditures to date and uncommitted or pending expenditures.

**Table One**

(\$ millions)	Approved Budget	Committed	Uncommitted or pending (1)
Tax-supported	750.5	568.4	182.1
Wastewater	360.8	223.2	137.6
Water	164.4	136.5	27.9
<b>Total</b>	<b>1,275.7</b>	<b>928.1</b>	<b>347.6</b>

Totals above are for active projects only. Projects closed during the course of the year are deducted from this table.

**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 \$1,869,735, notably \$1.0 million being returned to the Social Housing Major Repairs & Upgrades Reserve Fund and \$362,762 being returned to the City Services – Roads Reserve Fund;
- the capital receipts balance is increased by \$375,273; and,
- debt financing of \$1,221,433 will be cancelled.

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**Note (1)** – Represents Federal and Provincial Infrastructure Stimulus Funding (ISF) that was not required because the ISF project was under budget and/or ISF claims were ineligible.

### **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 2012, the total **capital spending** was **\$88.46 million** compared to \$116.29 million in 2011. 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**

Unfinanced capital is when actual spending temporarily exceeds funding that is approved but not yet received. Funding is financed in the short term by “borrowing” cash from working capital, either the general fund or reserve funds. Most of the unfinanced amount is associated with debenture financing. At the end of the third quarter of 2012, **unfinanced capital** totalled **\$19.4 million** (compared to \$132.1 million in 2011). These amounts exclude capital spending by the Joint Water Boards and non-cash items. Since September 30, 2011, the City has issued

approximately \$133 million of debt (excluding refinancing and debt issued on behalf of the Joint Water Boards), 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**

This table details the City's overall debt level projection for the end of 2012.

<b>Net Debt Level (Forecast \$ millions)</b>	<b>Dec 31, 2011</b>	<b>Issued * 2012</b>	<b>To Be Retired 2012</b>	<b>Dec 31, 2012</b>	<b>Authorized 2012</b>	<b>Total Potential</b>
General Property Taxes	188.1	36.0	28.8	195.3	99.4	294.7
Wastewater	86.5	9.0	9.6	85.9	34.8	120.7
Water	2.1	-	0.2	1.9	2.2	4.1
Reserve Funds Supported	36.6	-	5.6	31.0	24.3	55.3
<b>Subtotal</b>	<b>313.3</b>	<b>45.0</b>	<b>44.2</b>	<b>314.1</b>	<b>160.7</b>	<b>474.8</b>
Joint Water Boards - City's Share	2.5	7.1	0.3	9.3	28.6	37.9
City Services						
Reserve Funds	20.0	6.0	2.2	23.8	61.5	85.3
<b>Net Debt Levels Total</b>	<b>335.8</b>	<b>58.1</b>	<b>46.7</b>	<b>347.2</b>	<b>250.8</b>	<b>598.0</b>

\* Note: Issued 2012 does not include refinancing of \$8.7 m of debt from 2002, which has been included in existing debt levels, plus \$5.2 m of debt attributed to the Joint Water Boards Share of debt issued by the City on their behalf.

Amounts are subject to rounding

## **2012 Capital Budget – Capital Budget Revisions**

Summaries of the 2012 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 \$95.6 million to \$109.2 million at the end of the second quarter, mainly due to:

- \$4.7 million for Industrial Land acquisition
- \$9.0 million to establish the 2012 capital budget for the grant to Fanshawe College (it being noted that Fanshawe is projected to receive \$20.0 million in total by 2015)
- (\$0.3) million reduction to various projects to achieve 0% tax rate increase
- \$1.4 million for other projects
- (\$1.2) million reduction due to deferral of Byron Baseline Road upgrades

The Wastewater Capital Budget decreased from \$58.4 million to \$52.4 million mainly due to deferring the budget for White Oaks Industrial Subdivision Local Improvement project to years 2020/2021 (-\$8.4 million) offset by budget increases to the Biosolids Disposal and Optimization Plan (\$1.3 million), private drain connections (homeowners' share) (\$0.2 million) DC Background Study (\$0.2 million) and establishing a budget for storm sewers on Richmond Street (\$0.6 million).

The 2012 Water Capital Budget decreased from \$21.5 million to \$17.6 million mainly due to deferring the budget for White Oaks Industrial Subdivision water to years 2020/2021 (\$1.7 million). The annual watermain replacement program was also reduced by \$2.2 million. This amount was identified during capital project monitoring, noting that all scheduled projects will be completed. A portion of this reduction (\$0.8 million) addressed Council's resolution to accommodate the 2011 operating deficit.

## **Acknowledgements**

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