

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 9, 2013
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2012 CAPITAL BUDGET STATUS – FOURTH QUARTER REPORT

RECOMMENDATION

That on the recommendation of the City Treasurer and Chief Financial Officer, the 2012 Capital Budget Status - Fourth Quarter Report **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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2012 Capital Budget Status - Third Quarter Report (Finance & Admin Committee – November 26, 2012) <http://sire.london.ca/agdocs.aspx?doctype=agenda&itemid=15745>

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 fourth quarter 2012, only one project was over budget by more than \$50,000. Capital Project TS1498 - Hale/Trafalgar Street Overpass is over budget by \$629,033, 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 later in 2013.

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 (2012 and prior years), committed expenditures to date and uncommitted or pending expenditures.

(\$ millions)	Life to Date Approved Budget	Committed	Uncommitted or pending (1)
Tax Supported	719.2	544.9	174.3
Wastewater	356.8	223.6	133.2
Water	164.5	138.5	26.0
Total	1,240.5	907.0	333.5

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 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 2012, the total **capital spending** was **\$153.0 million** compared to \$217.4 million in 2011. These amounts exclude capital spending by the Joint Water Boards. The decrease was attributable to increased spending in 2011 on industrial land, solid waste management projects, notably the new Material Recovery Facility, and economic development allocations for Fanshawe College and the International Composite Centre at UWO.

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 fourth quarter of 2012, **unfinanced capital** totalled **\$12.2 million** (compared to \$44.8 million in 2011). These amounts exclude capital spending by the Joint Water Boards and non-cash items. Since December 30, 2011, the City has issued approximately \$36.4 million of debt (excluding refinancing, debt issued on behalf of the Joint Water Boards and the City-YMCA Joint Venture Partnership), 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.

	Dec 31, 2011	Issued 2012 *	Retired 2012	Dec 31, 2012	Authorized 2012	Total Potential
General Property Taxes	188.1	36.0	28.8	195.3	102.7	298.0
Wastewater	86.5	9.0	9.6	85.9	34.4	120.3
Water	2.1	-	0.2	1.9	2.2	4.1
Reserve Funds Supported	36.6	-	5.6	31.0	24.2	55.2
Subtotal	313.3	45.0	44.2	314.1	163.5	477.6
Joint Water Boards - City's Share	2.5	7.2	0.3	9.4	28.5	37.9
City Services Reserve Funds	20.0	6.0	2.2	23.8	60.0	83.8
Total	335.8	58.2	46.7	347.3	252.0	599.3
* Note: Issued 2012 does not include refinancing of \$8.7m of debt from 2002, which is included in existing debt levels, plus \$5.1m 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 fourth quarter are provided in **Appendix A**.

The General Capital Budget increased from \$95.6 million to \$116.0 million at the end of the fourth quarter, mainly due to:

- \$11.2 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 2019)
- (\$0.3) million reduction to various projects to achieve 0% tax rate increase
- \$1.7 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 \$51.9 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), establishing a budget for storm sewers on Richmond Street (\$0.6 million) and a budget reduction for the Hyde Park #4 SWM facility (-\$0.5 million).

The 2012 Water Capital Budget decreased from \$21.5 million to \$18.8 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. A budget of \$1.2 million was established for the SE Reservoir remediation 100% covered by insurance proceeds.

Acknowledgements

This report was prepared with support from Annette Ripepi from Financial Planning & Policy.

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