

Southeast LRT Project - Focused Advocacy Strategy Update

Recommendation:

That the August 28, 2013, Financial Services and Utilities report CR_354, be received for information.

Report Summary

This report provides options for backstopping the Valley Line Stage I, and outlines a targeted advocacy strategy to secure the current project shortfall.

Previous Council/Committee Action

At the June 19, 2013, City Council meeting, the following motion was passed:

That Administration work with the Mayor to develop and implement a focused advocacy strategy to obtain a letter of support from the Province of Alberta and the Government of Canada to fund the remaining \$515 million necessary to move forward on the Southeast LRT project and to include options to backstop provincial/federal commitment with Municipal Sustainability Initiative or other funding sources and that a report be provided to City Council by August 28, 2013.

At the February 20, 2013, City Council meeting, the following motion was passed:

1. That the revised Southeast to West LRT Capital Profile 11-66-1673, as outlined in Attachment 1 of the

February 20, 2013, Financial Services and Utilities report 2013CF8262, and the budget of \$60 million for Phase 2, Stage 1a – Southeast LRT line from Mill Woods Town Centre to Centre West, be approved.

2. That the February 20, 2013, Financial and Utilities Services report 2013CF8262, with the exception of Attachment 1, remain private pursuant to sections 16, 21, 24 and 25 of the *Freedom of Information and Protection of Privacy Act*.

At the October 17, 2012, City Council meeting, the following motion was passed:

1. That the Southeast to West LRT project funding strategy as outlined in the October 17, 2012, Financial Services and Utilities report 2012CF0446, be approved, subject to funding from the Governments of Canada and Alberta.

2. That the Mayor, on behalf of City Council, send a letter to the Governments of Canada and Alberta formally requesting the funding contribution required from each order of government to construct the Southeast Stage of the Southeast to West LRT.

3. That the October 17, 2012, Financial Services and Utilities report 2012CF0446 remain private pursuant to sections 16, 21, 24 and 25 of the *Freedom of Information and Protection of Privacy Act*.

At the May 2, 2012, City Council meeting, the following motion was passed:

1. That the Southeast to Downtown LRT Project be delivered as a Public-Private-Partnership (P3) as outlined in Attachment 2 of the April 24, 2012, Transportation Services report 2012TS5858.

2. That the Mayor forward a letter to the Premier of Alberta advising of the application and the need for special provincial funding to support its delivery as a P3 project.

3. That Administration make a funding application to the Federal Government under the P3 funding program and that upon approval, Project Profile 11-66-1673 (Southeast to West LRT) be revised to reflect the funding provided by P3 Canada.

4. That the April 24, 2012, Transportation Services report 2012TS5858 remain private pursuant to sections 21, 24 and 25 of the *Freedom of Information and Protection of Privacy Act*.

At the May 2, 2012, City Council meeting, the following motion was passed:

That LRT Project Profile 11-66-1673 (Southeast to West LRT) is approved, subject to funding from other orders of government.

Report

Overview

Focused Advocacy Strategy

At the present time, the required commitment from other orders of government has not been secured for

the outstanding amount. In order to secure this commitment to close or narrow the existing funding gap, Administration has developed and advanced a number of advocacy steps.

The Mayor has been undertaking targeted discussions at the federal and provincial levels as advocacy avenues for investments in the City's LRT. These discussions – which have communicated the importance of LRT to the success of Edmonton, Alberta and Canada – will continue in a sustained and targeted manner to ensure other orders of government continue to be aware of Council's LRT priorities and the urgent need for commitment of funding.

City officials will continue to work with key officials in other orders of government to secure project support. Areas of exploration will include but are not limited to:

- GreenTRIP and transportation-related funding source enhancements
- Big City Discussions
- Building Canada Fund
- Other new or alternative opportunities

In all instances, a key message has been – and will continue to be – that while the need for funding commitment is immediate, the delivery of funding from other orders of government can happen over time, as the project unfolds.

Backstopping Options

To ensure Valley Line Stage 1 project construction can begin in spring 2015, financial close of the P3 agreement needs to be completed by April or May

2015. To meet this timeline, the Request for Qualifications process needs to get underway in October 2013, and the Request for Proposals needs to be issued by March 2014.

To achieve this schedule requires total project funding to be in place prior to the issuance of the Request for Qualifications this fall. To proceed without full funding approval is not recommended, since in a highly competitive and costly transit procurement environment, there is a strong risk that unsecured funding will reduce investor confidence in the project and deter some proponents from participating. Such a scenario has the potential to reduce the competitiveness of the P3 procurement process and result in less competitive bids and a lower value for money.

To advance construction of the Valley Line Stage 1 (Mill Woods Towne Centre to Centre West), Edmonton City Council has conditionally committed up to \$800 million of the \$1.8 billion total project capital costs, subject to \$1 billion in funding from the other two orders of government.

The Government of Canada has also set aside up to \$250 million towards the project from the PPP Canada Fund. It is anticipated that \$235 million of GreenTRIP funding will also be available for the Valley Line Stage 1, subject to provincial approval and endorsement of the Capital Region Board. This amount is the City's remaining share, after North LRT (\$497 million), of the \$732 million allocated by the Capital Region Board for Edmonton projects.

In light of existing commitments by the City (\$800 million) and PPP Canada (\$250 million), as well as anticipated funding from the provincial GreenTRIP program (\$235 million), the current funding gap to build the Valley Line Stage 1 is \$515 million.

Financing the City's Share

To date, Council has approved \$187 million of the City's \$800 million share; this includes \$102 million for land acquisition, \$25 million for preliminary engineering, and \$60 million for utility relocations and P3 procurement. Funding sources include \$152 million through tax supported debt, \$24.1 million through the Municipal Sustainability Initiative and provincial fuel rebate, \$10 million through the LRT Reserve Fund, and \$0.9 million through pay-as-you-go.

Municipal funding sources for the remaining \$613 million Council has not yet approved are:

- Debt – \$536.6 million (\$11.6 million financed through Alberta Capital Finance Authority repayable over 25 years, and \$525 million of private partner investment);
- LRT Reserve – \$26.4 million; and
- Future Capital Budget Allocations – \$50 million of pay-as-you-go from the 2015-2018 capital program.

The City's \$536.6 million of new debt would be financed over 25 years for the Light Rail Vehicles, and over a 29-year term for construction. The funding sources to service the City's new debt are:

- LRT Reserve Fund – A portion of the \$5.1 million of annual dedicated tax levy the fund collects is currently available

for Valley Line Stage 1 construction and debt servicing. By 2026, the entire \$5.1 million per year the fund generates can be dedicated to the Valley Line Stage 1 as the fund will no longer be required for South and North LRT debt repayment.

- Debt Servicing Capacity – As City debt is repaid over the 2018-2026 timeframe, \$26 million per year of debt servicing capacity will become available for the Valley Line Stage 1.
- Tax Levy – A cumulative tax levy increase of 0.88 per cent, which translates into a total tax increase of \$10.5 million, to be levied in stages over two years. It is proposed the tax levy earmarked for the Valley Line Stage 1 start in 2015.

Backstopping the Project Shortfall

With full project funding needed to achieve a 2019 service delivery date for the Valley Line Stage 1 and an existing project shortfall of \$515 million, proceeding with the current schedule would require the City to guarantee project funding until the remaining federal and provincial dollars are available. Council has two options to consider for backstopping: use of existing funding sources; or debt financing. The implication of each of these two options is outlined below:

1. Use of Existing Funding Sources

The City's current renewal estimates for the years 2015-2019 (the period of the Valley Line Stage 1 construction) is \$2.3 billion. This number was produced for the 2012-2021 Capital Investment Agenda, using risk analysis done through the City's RIMS model. The process involved the analysis of the

then existing condition of the City's inventory of assets, and modeling the best combination of rehabilitation and replacement to get the whole of the City's assets up to an acceptable condition level within 20 years. Administration has begun the process of gathering information for the upcoming four-year capital budget (2015-2018) and 10 year Capital Investment Agenda (2015-2024). It is expected that renewal requirements will increase, as the City inventory of assets has expanded, and construction costs have escalated.

Administration's current estimate of \$2.3 billion provides an order of magnitude of the City's upcoming renewal infrastructure needs, and illustrates that our needs far exceed available funding sources. In addition to our renewal requirements, investment in growth projects will also need to be considered. Preliminary estimates to date show that about \$2.4 billion is available from existing funding sources for the years 2015-2019, of which approximately \$1.5 billion is actually available for LRT considering constrained funding sources and funds already committed towards other projects (Attachment 1).

Administration recognizes the need to balance between growth and renewal, which will make funding the Southeast LRT Project with existing funding sources challenging considering renewal and growth requirements for the City as a whole. Over the past decade, the City has made tremendous strides in understanding the extent of its infrastructure deficit, and in developing a reinvestment plan that considers the optimum investment required to maintain our infrastructure at an

acceptable level of performance and risk. To remove dollars from renewal at this stage would only undermine the advances that have been made and, in all likelihood, cost the City more in the long run. Requirements for renewal must be balanced by requirements for the funding for other growth projects or any emerging growth needs. The City is growing, and so too are demands for new infrastructure that supports the services all residents enjoy.

2. Debt Financing

To backstop the full \$515 million through long-term debt, a cumulative tax increase of three per cent over five years (0.6 per cent per year) would be required for five years, assuming financing over a 25-year term. This would be in addition to the cumulative tax levy increase of 0.88 per cent required for the City's \$800 million share.

In evaluating this option, Council would need to weigh the advantages of moving the project forward with the affordability of taking on additional debt. While choosing to backstop the project is within the City's legislated and policy driven debt and servicing limits, it reduces the City's flexibility to issue debt in response to any emerging needs or to manage any adverse fluctuations in the economy. Another consideration is that forecasted debt servicing costs begin to very closely approach the City's tax-supported debt servicing limits in 2017, until more debt servicing capacity becomes available in 2018. Having the City guarantee the remainder of the funding through long-term borrowing could also reduce the impetus for the

other two orders of government to contribute.

Alternatively, Council could backstop the \$515 million through short-term debt, thereby bridging the gap between construction and receipt of funding, and only borrow as required. To bridge finance the interest charges would increase the cost of the project by \$32.2 million. A funding source would need to be identified for this interest cost.

This approach allows the City time to pursue and secure additional federal and provincial funding to close or narrow the existing funding gap. The need for long-term borrowing may also be lessened or possibly eliminated, depending on the timing of the outstanding federal and provincial dollars, as any new funding would be applied against the short-term debt. It should be noted, however, that any remaining funding shortfall in 2019, when construction is completed, would need to be converted to long-term debt. It should also be considered that under some grant programs costs incurred prior to execution of a formal agreement are ineligible for the grant.

While these pose risks, it is also somewhat mitigated with more debt servicing capacity becoming available in 2018. While available debt capacity is initially being used to hold the tax impact of the City's \$800 million share to a total increase of 0.88 per cent, after 2020 the use of available capacity could be used to minimize the tax levy impact to citizens of any additional debt should converting to long-term borrowing be required.

Policy

Transportation Master Plan – *The Way We Move* Strategic Direction 5.1:

The City will pursue expansion of the LRT to all sectors of the city with a goal to increase transit ridership and transit modes split, and spur the development of compact urban communities.

Corporate Outcomes

- Citizens use public transit and active modes of transportation.
- Edmonton has sustainable infrastructure that fosters and supports civic and community needs.
- The City has well-managed and sustainable assets and services.
- The City is an effective enabler in partnerships and collaborative efforts that strengthen the region and beyond.

Attachment

1. Projected Funding Available for LRT

Others Reviewing this Report

- B. Belcourt, Acting General Manager, Transportation Services