Agenda – Council – July 15, 2015

Report – Executive Policy Committee – July 8, 2015

Item No. 12 Additional Borrowing Authority for the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Project

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 8, 2015, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That the 2015 capital budget recommendation 2.A.ii. be amended as follows:

   "That borrowing authority of up to $31 million be approved for the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Capital Project from external sources."

2. That additional borrowing authority in 2019 of up to $112 million be approved for the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Capital Project from external sources to be in place until $112 million in funding plus all associated interest costs is received from the Province of Manitoba to repay this debt, subject to the City entering into a project funding agreement with the Province of Manitoba that evidences the Province's commitment to fund these amounts as set forth herein.

3. That the Director of Legal Services and City Solicitor be requested to submit the necessary borrowing by-law directly to Council.

4. That the City enter into any agreements required by the lender to implement the foregoing, and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such agreements as outlined in this report and such other terms and conditions deemed necessary by the Director of Legal Services and City Solicitor to protect the interests of the City.

5. That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.

Agenda – Council – July 15, 2015

Report – Executive Policy Committee – July 8, 2015

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 8, 2015, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: **Request for Additional Borrowing Authority for the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Project**

Critical Path: **EPC - COUNCIL**

AUTHORIZATION

Author	Department Head	CFO	CAO/COO
T. Yanchishyn	D. Wardrop	Mike Ruta	Doug McNeil

RECOMMENDATIONS

1.) That the 2015 capital budget recommendation 2 (A)(ii) be amended as follows:

That borrowing authority of up to $31 million be approved for the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Capital Project from external sources.

2.) That additional borrowing authority in 2019 of up to $112 million be approved for the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Capital Project from external sources to be in place until $112 million in funding plus all associated interest costs is received from the Province of Manitoba to repay this debt, subject to the City entering into a project funding agreement with the Province of Manitoba that evidences the Province's commitment to fund these amounts as set forth herein.

3.) That the City Solicitor / Director of Legal Services be requested to submit the necessary borrowing by-law directly to Council.

4.) That the City enter into any agreements required by the lender to implement the foregoing, and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such agreements as outlined in this report and such other terms and conditions deemed necessary by the City Solicitor/ Director of Legal Services to protect the interests of the City.

5.) That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Additional borrowing authority of up to $112 million is required because a portion of provincial funding is not expected for the project until after construction is complete. The City must ensure sufficient funds are available at substantial completion to make required

payments to the P3 Proponent. In addition, the 2015 capital budget recommendation requires amendment to reflect its original purpose which provided financing for certain up-front costs throughout construction.

Council must approve all borrowing authority, borrowing by-laws and associated agreements / documents required by the lender together with amendments to previously adopted budget recommendations.

EXECUTIVE SUMMARY

The report requests additional borrowing authority to ensure the City has sufficient cash on hand to meet all P3 project obligations and to enable the City to successfully deliver the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass capital project for the Citizens of Winnipeg. The loans totaling $112 million will be reimbursed fully by the Province commencing in 2020 with completion of payments by 2022. The Province will pay for all interest charged on the loans. The recommended debt levels fall within the limits set out in the City's current Debt Strategy.

IMPLICATIONS OF THE RECOMMENDATIONS

The additional debt required for project completion will result in interest costs of $560,000 in 2019 based on a 3% interest rate assuming a November, 2019 borrowing date. Additional interest will be incurred in 2020 through to 2022 on the outstanding values of these loans. However the full amount of interest incurred on these loans will be reimbursed by the Province. Therefore the net impact to Transit's operating budget will be nil.

HISTORY

On October 22, 2008, Council adopted the plan for the Southwest Rapid Transit Corridor – Stage 1 in the amount of $138,000,000 which was commissioned in April 2012.

On November 16, 2011, Council adopted the Transportation Master Plan, which includes the provision for the expansion of the Pembina Highway Underpass and five new transit corridors, the first being the southwest corridor.

On December 14, 2012, preliminary design for the Pembina Highway Underpass was completed.

On March 20, 2012, Council approved an amendment to the Transportation Master Plan which identifies Alignment 1B (through the Parker Lands and the Manitoba Hydro corridor) as the preferred alignment.

On June 25, 2014, Council approved the report submitted by the Transit Department entitled Capital Integration Project – Southwest Transitway (Stage 2) and Pembina Highway Underpass in which:

- A 2014 capital project was approved in the amount of $590 million, subject to confirmation of Federal and provincial funding.
- The Project was authorized to proceed based on a Design-Build-Finance-(Operate)-Maintain (DBF(O)M) Public-Private Partnership delivery model.

The Project has a total budget of $590 million with funding being provided by all three levels of government. A portion of the funding will be financed through the private partner and paid back over 30 years. Annual service payments are expected to commence in 2020 for both the financing and maintenance of the project.

On March 23, 2015, Council approved the 2015 Capital Budget that included the following additional recommendation related to the project: 'That short term borrowing authority of up to $31 million be approved for the Southwest Transitway (Stage 2) and Pembina Highway Underpass capital project from external sources for those costs incurred before a P3 Project Agreement is in place and in advance of receipt of committed funding'.

This recommendation indicates that the borrowing authority was for costs incurred before a P3 Project Agreement is in place. The P3 Project Agreement will be in place in Spring 2016. The intention was that the $31 million of short-term borrowing authority was to fund all of the up-front costs that are outside of the P3 Project Agreement, such as Manitoba Hydro Early Works, property acquisition, consulting costs etc. until funding from the Province and P3 Canada was received. These costs will be in incurred right up until substantial completion in 2019 which will correspond with the timing of receipt of the majority of funding from both of the other levels of government. As a result, the capital budget recommendation needs to be amended accordingly.

The City is ready to release the Request for Proposals for the project to the three short-listed proponents. In advance of this release, the City needed to verify the terms surrounding the Provincial commitment of up to $225 million towards project costs. This resulted in the Province assessing their cash availability in the years when the project would be required to make payments to the Proponent. Based on this review, the Province has requested the City borrow $112 million in 2019 to meet cash commitments at substantial completion of the project. It is recommended that the City borrow this funding for a short period of time to ensure the project can proceed. The Province has determined it will be able to flow $67 million of its funding in April, 2020 and the remaining $45 million equally in April, 2021 and April, 2022 as repayment of this debt. The City will also be fully reimbursed for the interest costs associated with this lending. On or prior to substantial completion, the Province will provide funding of $113 million. The Province will be sending a letter to the City this week confirming this arrangement and the terms will be formalized in a project funding agreement at a later date.

In May, 2015, the City sent a letter to the Province setting out the City's understanding of certain principles with respect to a number of issues to be formalized in a project funding agreement including:

- In meetings with the Province concerns were expressed with respect to eligible and ineligible expenditures. The City's understanding is the Province will share in all expenditures at a rate of 50% net of payments made by the Federal government up to $225 million. All costs in the City's project budget are project costs.

- Confirmation that the Province will contribute 50% of costs toward the operation, maintenance and lifecycle payments determined through the RFP process for the project over the 30 year concession period.
- Discussion regarding the City's request to apply a 5 cent fare increase directly to payments without application of the 50% funding formula in the Provincial Transit Funding Arrangement.
- Cost sharing in the purchase of additional buses required for operation on the new transitway.

Debt Strategy

On June 22, 2011, Council adopted the Debt Strategy report for tax supported, utilities and total City borrowing. This Project requires a total amount of $112 million in short-term debt financing.

The impact of this debt financing falls within the debt limits established in the Council report as outlined in the table below.

Utilities & Transit net debt as a percentage of revenue not to exceed	220.0%
Forecasted peak rate including proposed debt from this report	146.5%
Tax Supported net debt as a percentage of revenue not to exceed	60.0%
Forecasted peak rate including proposed debt from this report	58.6%
Total City net debt as a percentage of revenue not to exceed	85.0%
Forecasted peak rate including proposed debt from this report	79.6%
Utilities & Transit debt servicing as a percent of revenue not to exceed	20.0%
Forecasted peak rate including proposed debt from this report	18.9%
Tax Supported debt servicing as a percent of revenue not to exceed	10.0%
Forecasted peak rate including proposed debt from this report	5.8%
Total City debt servicing as a percent of revenue not to exceed	11.0%
Forecasted peak rate including proposed debt from this report	9.3%
Utilities & Transit Debt per Capita not to exceed	1,300
Forecasted peak rate including proposed debt from this report	1,230
Tax Supported Debt per Capita not to exceed	1,050
Forecasted peak rate including proposed debt from this report	963
Total City Debt per Capita not to exceed	2,400
Forecasted peak rate including proposed debt from this report	2,193

FINANCIAL IMPACT

Financial Impact Statement

Date: July 6, 2015

Project Name:

First Year of Program **2016**

Request for Additional Borrowing Authority for the Southwest Transitway (Stage 2) and Pembina Highway Underpass Project

	2016	2017	2018	2019	2020
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ 560,000	$ 1,852,500
Less: Incremental Revenue/Recovery	-	-	-	560,000	1,852,500
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Costs reflect interest on $112 million of debt in 2019 at 3%. Interest costs in 2019 reflect borrowing in November and therefore reflect amounts for two months. Interest costs in 2020 reflect a repayment of $67 million of borrowing in April 2020. All interest costs will be fully funded by the Province of Manitoba and they are reflected under Incremental Revenue. Net impact to Transit's operating grant from the City is nil.

original signed by
Tanis Yanchishyn, CA

CONSULTATION

In preparing this report there was consultation with:

- Corporate Finance
- Legal Services

OURWINNIPEG POLICY ALIGNMENT

01-01b Key Directions for the Entire City- Key directions for connecting and expanding our sustainable transportation and infrastructure network.

SUBMITTED BY

Department:	Transit
Division:	Finance and Administration
Prepared by:	Tanis Yanchishyn, Manager of Finance & Administration
Date:	June 30, 2015
File No.	