Green Line Program Loan Financing

1. Introduction

The City has identified various projects (phases) within the Green Line Program to be able to initiate construction of portions of the Green Line as soon as possible. On November 25, 2013, (Interim and Permanent Financing and Funding Strategy report) Council approved a reserve funding source of $52 million per year over a 10 year period (2015- 2024) to fund Green Line. In the same report Council approved the Administration using existing sources of working capital as a source of bridge financing for the Green Line, should cash flows not match expenditures for construction of the Green Line.

For previous transportation infrastructure projects such as the West LRT, the City has issued $783 million of external bridge financing, structured so it can be repaid from the future provincial Municipal Sustainability Initiative MSI grant funding. The structured debt has increased both debt outstanding and Municipal Government Act MGA debt servicing ratios, reducing the flexibility to borrow for other capital initiatives over the next few years. Therefore, The City is exploring bridge financing using internal sources. Internal financing will not impact The City's debt or debt servicing limits under the MGA and does not constrain the ability to borrow for other projects if required.

2. Project Costs

Green Line Program Project Phases*

Projects within Green Line Program	Cost ($millions)
Phase 1: Transitway from 78 Avenue N and Douglas Glen	625
Phase 2: Extend Transitway to North Pointe	120
Phase 3: Extend Transitway to McKenzie Towne	200
Phase 4: Extend Transitway to Seton	185
Bus Purchases	37
Maintenance Facility	125
Total Cost of Green Line Program	1,292

*__Source Building Canada Fund Business Case Submission__

As indicated in the table above, Phase 1 project cost is about $625 million. Council has allocated $520 million of funding to the Phase1 project and The City is seeking $150 million of matching funds from the Building Canada Fund (BCF) toward funding Phase 1. For clarity, any internal loans provided to the project would be for bridge financing purposes and not a new source of funding. Rather it is a cash flow mechanism to be used to finance timing differences of revenues and expenditures over the project's construction period.

3. City Investments and Liquidity

The City has portfolio investments earmarked for specific purposes including operating and capital reserves, capital deposits (acreage assessments), long term liabilities, and for working capital. While working capital fluctuates during the year, it represents more than $500 million of total investments that is available to temporarily bridge finance Green Line expenditures. Bridge financing in the form of an interest bearing internal loan reduces external borrowing costs and replaces foregone investment income with internal interest from the internal loan financing.

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4. Funding/Financing Source

Council has allocated $52 million of tax room per year towards Green Line funding for 10 years, 2015 to 2024 inclusive, for a total amount of $520 million. Phase 1 is a transitway from 78 Ave N to Douglas Glen and has a projected total cost of $625 million. Of this total, $538.8 million are eligible costs under the Building Canada Fund (National Infrastructure Component). The City made application under the BCF for $150 million for Phase 1. If the BCF application is successful these funds, in combination with The City's $520 million contribution, would be sufficient to fund Phase 1. Feedback from the Federal Government on items such as eligibility of certain costs and timeline for submitting claims and receiving reimbursements will need to be incorporated into this cash flow in the future.

Green Line Cash Flow Forecast **($million)**:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Beginning Balance	-	(1.5)	2.9	43.2	84.4	117.3	106.2	(15.6)	(126.3)	(92.3)	(51.3)	
Expenditures	(1.5)	(47.6)	(11.7)	(18.0)	(70.1)	(114.0)	(173.8)	(162.5)	(16.2)	(9.6)	-	(625.0)
City Funding	-	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	520.0
BCF Funding	-	-	-	7.2	51.0	50.9	-	-	-	-	-	109.1
Interest Expense [1]	-	-	-	-	-	-	-	(0.2)	(1.8)	(1.3)	(0.7)	(4.1)
Ending Balance	(1.5)	2.9	43.2	84.4	117.3	106.2	(15.6)	(126.3)	(92.3)	(51.3)	0.0	0.0

[1] interest expense based on prior year balance at 1.443%, ACFA's 3 year rate as at Nov 15/14

Based on the above estimated cash flows, the project will require additional (bridge) financing beginning in 2021 to 2023. Although this financing could be accommodated by external debt, The City is exploring bridge financing using internal sources. An intra-corporate loan arrangement would be documented to include the interest rate and loan repayment schedule from the business unit.

5. Ramifications and Risks

Budget: Capital budgets require identified funding. The Lifecycle Maintenance and Upgrade Reserve is the funding source (as this is where annual $52M contributions are being transferred to). However, cash flow analysis in Section 4 above indicates that as the project progresses the actual funding of expenditures occurs in years subsequent to the spending (2021-2023) resulting in the need for interim bridge financing.

An internal loan would be arranged with the business unit to document the specified interest rate and repayment terms of the loan. When the loan is in place the annual $52M would fund the debt servicing including the interest payment to the investment portfolio to replenish foregone investment income.

Credit Rating: Internal financing of the project will not impact on The City's debt levels, but will temporarily reduce the investments under management by the amount of the internal loan. The City's Credit rating agencies would likely favour the funding strategy as they have more sensitivity to increasing debt levels.

Internal Loan Framework: In anticipation of ongoing internal loans, Administration would develop a formal internal loan framework / guidelines for Council approval. Such framework would include funding approval requirements, type of projects eligible for an internal loan, credit documentation, interest rates, and repayment terms and conditions.

A borrowing bylaw should also be raised prior to Phase 1 construction starting, as back-up protection in the unlikely event The City requires access to funds from external debt. Once construction starts a borrowing bylaw can no longer be raised (Section 254 of the MGA).

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Council approved funding shall be directed toward loan repayment of principle and interest. Any cost overruns are for the account of the borrowing department. Should funding deficits occur, the borrowing department shall service the debt from its operating budget.

6. Recommendation

The City has sufficient working capital and liquidity to finance some capital projects from its investment portfolio on a loan repayment basis. Green Line Phase 1 cash flows indicate temporary deficits. Rather than financing with external debt, Administration proposes providing internal bridge financing if required. It should be noted that an internal loan is not a new funding source but rather a cash flow financing mechanism to finance timing differences. Arrangements would be made to provide an interim loan and charge interest to supplement the investment portfolio (reserves) for the foregone investment income that would otherwise be earned. The borrowing department is responsible for repayment of internal loan financing.

Any required financing bylaws would be brought to Council after the completion of the pre-design work and after a delivery model is selected, whereupon more accurate cash flows and project costs will be known. A decision from the federal government regarding the BCF application should be received and additional funding sources should be more certain by that time (Q4 2015).