

Transportation Report to
Priorities and Finance Committee
2019 January 22

ISC: UNRESTRICTED
PFC2019-0040

Green Line – Funding and Financing Update

EXECUTIVE SUMMARY

This report provides an update on funding and financing for Stage 1 of the Green Line project, 16 Avenue North to 126 Avenue Southeast. Administration will provide a verbal update to Priorities and Finance Committee regarding the status of negotiations on the Ultimate Recipient Agreement (“URA”) with the Province of Alberta on behalf of the Government of Canada and the Province of Alberta. The URA contains the terms and conditions for the \$3.06 billion funding from both the federal and provincial governments in a single agreement with the City of Calgary (“The City”).

Administration has reviewed the impact of the funding schedules included with the URA and has evaluated the impact to the previously approved funding for Stage 1 of the Green Line consisting of \$23.7 million per annum for 27 years (2018-2044) for funding financing costs from the 2017 tax room and \$52.0 million per annum for 30 years (2015-2044) Green Line funding commitment, from the 2013 tax room.

Administration is recommending that Council combine the two Council approved funding sources to optimize cash flow over the term of the project. Attachment 1 (Confidential) outlines the analysis and benefits of this recommendation.

Following finalization of the URA, Administration will be in a position to proceed with the Request for Qualifications (RFQ) for the Light Rail Vehicles (LRV’s) in 2019 Q1 and then with the Request for Proposals (RFP) in 2019 Q2. Similarly, Administration will proceed with the Project construction RFQ in 2019 Q2 and the RFP in 2019 Q3. Attachment 2 (Confidential) outlines the 2019 Milestone Schedule.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommend that Council:

1. To optimize the Green Line cash flow commitments over the term of the project, reconsider, in part, its decision as contained in the minutes of the Regular Meeting of 2017 November 27 with respect to Recommendation 1 of Report C2017-1123 as follows:

by deleting the words “the financing” after “fund” and before “costs” to result in the following motion:

Direct that the 2017 tax room (\$23.7 million) be retained in 2018 and future years and used to fund costs for Green Line for 27 years until 2044.”

2. Direct that Attachment 1 and the closed meeting discussion remain confidential until construction completion of the Stage 1 Green Line project, pursuant to sections 23, 24, 25, and 27 of the Freedom of Information and Protection of Privacy Act (Alberta).

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PREVIOUS COUNCIL DIRECTION / POLICY

At the 2018 December 04 Priorities and Finance Committee meeting of Council, the Deferral request, Report PFC2018-1105: Green Line Budget and Funding Confirmation was moved by Councillor Keating and approved as follows:

“That with respect to Report PFC2018-1105, the following be approved:

That the Priorities and Finance Committee recommends that Council approve Administration’s request to defer the report on the Green Line LRT – Budget and Funding Confirmation to a Priorities and Finance Committee meeting to occur by no later than the end of Q1 2019.”

At the 2018 March 19 Combined meeting of Council, Report PFC2018-0207: Green Line Light Rail Transit Project Delivery Model Recommendation, was approved as follows:

“That Council:

1. Approve Design-Build-Finance (“DBF”) as the delivery model for the Green Line LRT project from 16 Avenue North to 126 Avenue Southeast;
2. Authorize the General Manager, Transportation, to negotiate all funding agreements with the federal and provincial governments, and the General Manager, Transportation, and the City Clerk to execute the funding agreements and any other agreements necessary to advance the procurement process. The General Manager, Transportation, and the City Solicitor will also sign off on the funding agreements as to content and form, respectively;
3. Direct that Attachment 4 and the Closed Meeting discussions remain confidential pursuant to section 23, 24, 25 and 27 of the *Freedom of Information and Protection of Privacy (FOIP) Act* (Alberta) until the agreements for the Project considered in this Report are awarded and financial close is achieved, with the exception, of information Administration needs to share with funding partners, which will be shared in confidence; and
4. Direct Administration to report back no later than Q4 2018 to the Priorities and Finance Committee of Council with the recommended budgets for approval including financing and confirmation of funding from the other orders of government for the Project.”

At the 2017 May 15 Strategic Meeting of Council, Report C2017-0467 (Green Line LRT: Building the Core) was approved as follows:

“ADOPT, AS AMENDED, Moved by Councillor Keating, Seconded by Councillor Stevenson, that Recommendation 1 be adopted, as amended, as follows:

That Council:

1. Proceed with Stage 1 Project based on: 16 Avenue N (Crescent Heights) to 126 Avenue SE (Shepard) subject to Council’s final approval of the alignment, station locations, and transit oriented development concept plans based on the Class 3 capital estimate of \$4.65 Billion construction cost contingent on securing funding as per #2 and #3 below;
2. Prepare the required business case(s) for submission to the Government of Canada to support a request of \$1.53 Billion plus financing to support the Stage 1 Project;
3. Prepare the required business case(s) for submission to the Government of Alberta to support a request of \$1.56 Billion plus financing to support the Stage 1 Project;
4. Request the Mayor to work with administration in the beginning making the case for funding of the rest of the line, beginning as soon as possible;

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5. Direct Administration to bring a revised financial strategy, pending confirmation of federal and provincial funding, and including capital, financing and operating cost models, to Council as part of the 2018 Business Plan and Budget deliberations; and

6. Direct that Attachment 2 and Distribution #3 remain confidential pursuant to Sections 24(1)(a), 24(1)(b) and 25(1)(b) of the Freedom of Information and Protection of Privacy Act, until the Green Line construction has been completed.

MOTION ARISING, Moved by Councillor Chu, Seconded by Councillor Keating, that with respect to Report C2017-0467, Council direct Administration to:

1. Develop timeline scenarios for building the remainder of the Green Line showing the construction timelines assuming funding is secured for stations north of 16 Avenue North and south of 126 Ave SE;
2. Seek funding options so that the remainder of the line can be constructed without interruption once the opening day scenario is completed;
3. Continue land acquisition of Centre Street North properties on an opportunity basis and develop funding options, in advance of construction; and
4. Host open houses to provide residents and businesses who are not part of the opening day scenario with information regarding the completion of the green line including land acquisition.”

At the 2017 June 26 Regular Meeting of Council, Report TT2017-0534 (Green Line LRT Alignment and Stations: 160 Avenue N to Seton) was approved as follows:

REFER, Moved by Councillor Colley-Urquhart, Seconded by Councillor Chabot, that Councillor Keating’s Motion, NM2017-17, be referred to Administration for consideration during the development of a contracting strategy.

“ADOPT, Moved by Councillor Keating, Seconded by Councillor Carra, that the SPC on Transportation and Transit Recommendations 1 and 3 contained in Report TT2017-0534, be adopted, as follows:

That Council:

1. Adopt the recommended alignment and station locations for the Green Line Light Rail Transit (LRT) long-term vision from 160 Avenue N to Seton as per Attachment 1 and 3; and
3. Direct Administration to report back no later than Q1 2018 with a Stage 1: 16 Avenue N to 126 Avenue SE project update including a recommended contracting strategy and future staging approach.”

At the 2017 November 27 Regular Meeting of Council, Report C2017-1123 (Green Line LRT Council Presentation) was approved as follows:

REFER, Moved by Councillor Keating Seconded by Councillor Carra that with respect to Report C2017-1123 Recommendation 1, the following be adopted, after amendment:

“That Council: 1. Direct that the 2017 tax room (\$23.7 million) be retained in 2018 and future years and used to fund the financing costs for Green Line for 27 years until 2044.”

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At the 2015 December 14 Regular Meeting of Council, Report TT2015-0881 (Green Line Funding, Staging and Delivery) was approved as follows:

“ADOPT, Moved by Councillor Keating, Seconded by Councillor Carra, that Councillors Keating, Carra, Woolley, Farrell, Chu, Stevenson, Demong, Colley-Urquhart, Pincott, and Mayor Nenshi’s Motion, NM2015-33, be adopted, as follows:

NOW THEREFORE BE IT RESOLVED that Council’s current Green Line funding commitment of \$52 million annually for a ten year period be extended to a period of thirty years to create a total funding commitment of \$1.56 billion;

AND FURTHER BE IT RESOLVED that the commitment of City of Calgary funding take effect once the Government of Alberta confirms their support for the Green Line LRT.”

BACKGROUND

Following the approval of the Green Line long-term vision and Council direction to proceed with Stage 1: 16 Avenue N to 126 Avenue SE, Administration has transitioned from the planning phase to the project execution phase. During this period Administration has been negotiating the terms and conditions of the funding agreement with the federal and provincial governments, reviewing the capital cost estimation for the project, reviewing the financing cost estimates for the project, and preparing to release the project to market.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Funding Agreement

In April 2018, the Government of Canada Treasury Board provided final approval for Green Line Stage 1 to be an eligible project under the Investing in Canada Infrastructure Program (“ICIP”). The federal government also signed an Integrated Bilateral Agreement (“IBA”) with Alberta. The IBA provides Alberta with the right to negotiate, on behalf of both Governments, an Ultimate Recipient Agreement with The City. The URA covers terms and conditions for both the federal \$1.53 billion, as well as the provincial \$1.53 billion funding.

Administration will provide Priorities and Finance Committee a verbal update on the current status of negotiations.

Project Financing Costs

The Green Line Stage 1 project will utilize a significant portion of The City’s available debt capacity.

An analysis of the funding scenarios and financing costs for the Project, and the impact of any Project related debt on The City’s debt limit and debt service limit is provided in Attachment 1 (Confidential).

In analyzing the financial information, Administration believes that having the ability to utilize The City’s designated Green Line commitment funding (\$52 million/year in 2013 tax room) and financing cost funding (\$23.7 million/year in 2017 tax room) cohesively, will allow for maximum

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flexibility in dealing with the timing of both construction and debt servicing obligations in any particular year. Attachment 1 (Confidential) outlines the analysis and benefits of this recommendation.

Project Borrowing Bylaws

The Green Line Stage 1 Project will incur debt servicing cost related to any portion of the construction expenditures that is incurred prior to the receipt of funding, and that will require debt financing. A portion of the debt financing is anticipated to be obtained as private construction financing secured by the proponent awarded the main construction contract, in addition to any direct City financing requirements.

Borrowing bylaws are required for both debt financing components. These borrowing bylaws will be prepared for first reading at the 2019 June 17 Council meeting to allow second and third reading prior to the issuance of the main construction RFP in 2019 Q3.

Update on Schedule

In alignment with Report TT2018-1335 Green Line Q4 2018 Update, following the finalization of the URA, administration will proceed into procurement. The following dates have been identified for release of the RFQ and RFP documents, for Light Rail Vehicle (LRV) procurement and the main construction contract procurement. See Attachment 2 (Confidential) for the 2019 Milestone Schedule.

Upcoming 2019 Procurement Timeline		
	LRV	Main project
RFQ	2019 Q1	2019 Q2
RFP	2019 Q2	2019 Q3

Stakeholder Engagement, Research and Communication

As the project moves into execution the primary communication tool with industry will be through the project website and through the use of industry memos, which the project team will utilize in greater volume going forward. Additionally, Administration has established a regular format and cadence of quarterly reporting to the Transportation and Transit (T&T) Committee. For 2019, quarterly project updates will be provided to T&T Committee on the following dates:

- Q1 – March 20, 2019
- Q2 – June 26, 2019
- Q3 – September 18, 2019
- Q4 – December 18, 2019

Community Stakeholder engagement will continue as the project progresses through 2019.

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Strategic Alignment

Social, Environmental, Economic (External)

The project aligns with social, environmental and economic priorities of The City and the priorities of the provincial and federal governments. Green Line is designed to improve quality of life by providing people with options on how to move, work, live, and play, and allows more affordable access to essential community services.

As part of its alignment with environmental priorities, the Environmental Management Program (EMP) focuses on realization of greenhouse gas (GHG) reduction benefits. The Green Line Project is tasked with satisfying the City of Calgary, and federal and provincial funding partner requirements that include: climate resilience reporting; environmental assessments; First Nations consultation; application of the Envision management system; and the provision of technical environmental requirements and guidelines to satisfy the procurement process.

Financial Capacity

Current and Future Operating Budget:

On 2017 May 15, and 2017 November 27, a preliminary estimate was provided to Council of the annual incremental operating and maintenance costs for the Stage 1 project. This \$40 million per year estimate, in 2016 dollars, continues to be supported following the completion of the constructability review and further technical reviews. This estimate is dependent on several factors and will be further refined once the major construction contract has been awarded and the construction schedule is set. The operating and maintenance costs are currently not funded and an ongoing funding source will need to be in place prior to the start of operations.

Current and Future Capital Budget:

The Project had earlier received funding for its enabling works projects that are related to preparing the right-of-way for the Project's major construction. The enabling works budget is \$360.6 million, and is provided by funding programs from the three orders of government that are separate from the main Project's funding (Federal Public Transit Infrastructure Fund (PTIF) 1 = \$111 million, provincial 50% PTIF match = \$55.5 million, provincial GreenTRIP = \$92.4 million, City 50% match of PTIF 1 & GreenTRIP = \$101.7 million). Capital expenditures for the Project will align with funding from all three orders of government.

Expenditures to date:

As at October 31, 2018 expenditures incurred total \$128 million.

Committed costs:

As at October 31, 2018 expenditures and committed costs total \$211 million.

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Risk Assessment

Risks associated with the URA have been reviewed by the Green Line team, Finance, Law, and external legal counsel, and will be discussed in the closed session presentation.

Administration is continually evaluating The City's exposure regarding financial risks including:

- Timing of construction expenditures;
- Timing of receipt of capital funding;
- Interest rates;
- Credit spreads; and
- The availability and attractiveness of financing structures prior to execution of the project company construction financing commitment, and any additional City debt financing

The Green Line Stage 1 project will utilize a significant portion of The City's available debt capacity and may limit The City's ability to debt finance other capital projects.

Administration has established a regular format and cadence of quarterly reporting to the Transportation and Transit (T&T) Committee. The reporting includes both a public and confidential risk register outlining global project risks.

REASON(S) FOR RECOMMENDATION(S):

Based on the terms in the URA and a better understanding of the project, Administration has analyzed the funding model. Administration recommends providing flexibility to optimize City of Calgary cash flows.

The recommendations in this report are based on the information and context known at the time of writing.

The confidential Attachment #1 contains proprietary and commercially sensitive information relating to the procurement strategy for the project and financial information related to ongoing funding negotiations with the Government of Alberta and the Government of Canada.

ATTACHMENT(S)

1. Attachment 1 – Funding and Financing Scenarios [Confidential]
2. Attachment 2 – 2019 Milestone Schedule