

escalation. To minimize the potential impacts of such cost increases on City projects, it is proposed that up to \$10 million worth of works that would be needed in the next few years be advanced to 2004 and that this be funded from the Legacy Fund. A similar approach will be proposed for 2005 as part of the 2005 Budget Process. The Legacy Fund would be repaid with interest (4.25%) during 2006, 2007 and 2008, during which time the City's capital construction program would be cut back. The years 2006, 2007 and 2008 are likely to be amongst the highest demand years for the civil capital construction outlined previously.

Proposed Financing

Over the next 5 years, the pre-financing and then repayment schedule is shown as follows:

Year		<i>Pre-Financing</i>	<i>Net</i>	Program
		Normal Program	or (Repayment)	
2004	± \$60 million *	\$10.0 million	\$70.0 million	
2005	± \$50 million	\$10.0 million	\$60.0 million	
2006	± \$50 million	(\$7.7 million)	\$42.3 million	
2007	± \$50 million	(\$7.7 million)	\$42.3 million	
2008	± \$50 million	(\$7.7 million)	\$42.3 million	

* Includes Campbell Heights pre-servicing.

The above repayment schedule is based in the need to borrow the entire amount from the Legacy Fund immediately and is the worst-case scenario. In reality, the funds will be borrowed and interest will be calculated as the actual construction commences.

Each year, the Public Works Construction Program carries forward approximately one third of their funding for works that have not been completed. Based on this, it is likely that the 2006 – 2008 repayment schedule will be substantially reduced.

Potential Works Advanced to 2004

Based on the 2004 budget, the City capital program is projected at \$60 million for 2004 (net actual construction value). This is already (i.e., without a pre-financing of works) the largest engineering capital program ever. The list of capital items included in this overall program is under preparation and will be forwarded to Council shortly.

The first phase of proposed additions to be brought forward for funding are shown in Appendix 1. These projects have been selected based on the following criteria:

- The need has been identified in the 10 Year Capital Program;
- The need is there today, but the required funding will not be in place until the future, and
- Construction in 2004 will result in cost savings by coordinating the works with other projects currently planned for this year such as, repaving and development related items.
- The City's capacity to undertake the additional projects in a cost-effective manner.

DISCUSSION

With all the additional capital construction projected by other levels of government in likely mostly commencing late 2005 and into 2006, 2007 and 2008, significant cost pressures are anticipated. The exact impact of these cost

pressures will only be known as tenders are received in the peak construction times. Advancing works before this peak time will, certainly result in lower prices at this time. The cost is the interest charges on overall borrowing of 4.25%. If works are advanced in both 2004 and 2005, and paid back in 2006/2007/2008, then the worst case scenario cost will be around 8.5%. Projections are that cost increases are likely to significantly exceed 8.5%. Consequently, advancing works is a cost effective approach; for example, should there be a 20% increase in construction costs by 2008, then the pre-financing approach will save in the order of \$3 million, even allowing for the cost of borrowing. Costs will be monitored throughout the next two years, and the pre-financing approach adjusted as necessary.

Currently there is just over \$30 million in the legacy fund.

Paul Ham, P. Eng.
General Manager, Engineering

PH/VW:brb/kjj

Attachment: Appendix I

c.c. - General Manager, Finance, Technology & HR Dept.

g:\wp-docs\2004\administration\01121126ph.doc
KJJ 1/19/04 9:38 AM

APPENDIX I

First Phase of Additional Capital Projects

		Cost
104 Avenue (Asian Centre)	Add on to development works – landscaped median traffic signal, minor widening and pavement rehabilitation	\$0.5 million
128 Street: 56 to 64 Avenues Water Mains	Expand pavement rehabilitation project to include full arterial widening	\$3.0 million
96 Avenue: 140 to 148 Streets	Expand pavement rehabilitation and structural upgrade to include both sides of road.	\$0.7 million
King George Hwy: 72 to 80 Avenues	Extend length of pavement rehabilitation (including replacement of old water main).	\$0.8 million

g:\wp-docs\2004\administration\01121126ph.doc
KJJ 1/19/04 9:38 AM