
TO: GENERAL COMMITTEE

SUBJECT: CAPITAL PROJECT STATUS REPORT

WARD: ALL

PREPARED BY AND KEY CONTACTS: H. MILLER, SUPERVISOR BUDGET & TREASURY (EXTENSION 4923)
M. JERMEY, DEPUTY TREASURER (EXTENSION 4407)

SUBMITTED BY: C. MILLAR, DIRECTOR OF FINANCE

GENERAL MANAGER APPROVAL: P. ELLIOT-SPENCER, GENERAL MANAGER OF COMMUNITY & CORPORATE SERVICES
R. J. FORWARD, GENERAL MANAGER OF INFRASTRUCTURE & GROWTH MANAGEMENT

CHIEF ADMINISTRATIVE OFFICER APPROVAL: C. LADD, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That staff be authorized to close the capital projects as identified as completed in Appendix C-1 – Projects with Excess Committed Funding, and release the funding commitments in the amount of \$3,848,681.72 as described in Appendix C-1, and identified in Appendix C-2 of Staff Report FIN012-016.
2. That staff be authorized to close the capital projects as identified as completed in Appendix D-1 – Projects Requiring Additional Funding, and increase the funding commitments in the amount of \$13,319,780.79 as described in Appendix D-1, and identified in Appendix D-2 of Staff Report FIN012-016.
3. That staff be authorized to undertake the new capital projects as well as existing projects with an expanded scope as identified in Appendix B-1 – New Capital Projects, and add the funding commitments in the amount of \$200,000 as described in Appendix B-1, and identified in Appendix B-2 of Staff Report FIN012-016.
4. That staff be authorized to close the capital projects as identified as completed in Appendix F-1 – Housekeeping - Projects with Outstanding Balances – Pre-SAP Conversion Clean-up, and increase the funding commitments in the amount of \$902,136.10 as described in Appendix F-1, and identified in Appendix F-2 of Staff Report FIN012-016.

PURPOSE & BACKGROUND

6. The purpose of this report is to describe the status of the City of Barrie's Capital Plan as required by the City's Capital Project Financial Control Policy.
7. Project managers are responsible for ensuring each capital project assigned to them adheres to schedule requirements and financial policies throughout the year.
8. This report provides an update on the progress and performance of the Corporation's Capital Plan.

Capital Project Financial Control Policy

9. A key element of the Capital Project Financial Control Policy is the requirement for a semi-annual Capital Status Report which includes:
 - a) The status of all approved Capital Projects (i.e. not started, design phase, underway, substantially complete, or other);
 - b) Capital Projects to be closed with related recommendations for treatment of project savings and over expenditures which exceed the materiality threshold of the lesser of 10% of the Project Capital Budget or \$250,000;
 - c) Recommendations for the deferral or closure of capital projects to either fund new projects, or over expenditures on other projects;
 - d) Recommendations for financing adjustments when requirements for any anticipated over expenditures exceed the materiality threshold of the lesser of 10% of the Capital Budget or \$250,000; and,
 - e) Recommendations to address substantive changes in the nature or scope of an approved capital project.
10. Any over expenditures below the materiality threshold can be addressed by the Department Head, subject to review by the Director of Finance or delegate, through the use of holding accounts established for each fund (i.e. tax rate, water rate, wastewater rate, and parking rate).
11. The status of the City's capital projects is being presented as of September 30, 2016. Project managers have provided status updates on Capital Projects.

ANALYSIS

Capital Project Status – Appendix A

12. Appendix A includes approved capital budget information, requested pending adjustments to the approved capital budgets, project spending to date and spending plans. The 'Total Spend to Date' column includes the lifetime activity of the project up to the end of September 30, 2016. The '2016 Spending Plan' column includes actual spending for January to September 2016 and then forecasted spending for October to December 2016.
13. Appendix A of the Capital Project Status Report provides a listing of all approved and pending approval projects (482 projects) in the City's 2016 Capital Budget by functional area:
 - a) \$334M of the total capital plan of \$520M has been spent to date;
 - b) \$65M is anticipated to be spent in 2016; and,
 - c) \$128M projected to be forecasted to be spent on approved capital projects over the next two years.
14. The total additional funding required is \$25.1M, while the total funding commitments being released are \$14.5M, which amounts to a net \$10.6M increase to the overall Capital Budget.

Other Priority Projects – Appendices B-1 and B-2

15. It is recommended that the following project be added to the Capital Budget and funded as outlined in Appendices B-1 and B-2:

a) **Transit Terminal Air Handling Unit Replacement**

Approved Budget: \$0

Additional Funding Required: (\$200,000 – Federal Gas Tax)

The heating portion of the air handling unit serving the first floor of the transit terminal was shut down due to cracks found in the gas heat exchanger. The unit has been patched temporarily in order to turn the heat back on but there's no guarantee how long the patch will hold. The unit is original and the firm that manufactured it is out of business so replacement of the heat exchanger itself is not an option. Facilities staff is requesting funding for the emergency purchase of a replacement rooftop air handling unit and have engaged a consultant to specify something that will fit, isn't too heavy for the roof and is available within a reasonable amount of time. This is however a larger unit and whatever is specified will probably have an eight week or more lead time for delivery.

In the meantime staff will be installing stand-alone electric furnaces at key locations to provide some heat in case the exchanger patch fails and the gas needs to be shut off. Ideally they won't be needed and will use them elsewhere after the unit is replaced but we can't risk having a facility without heat in December / January. Staff will work to keep costs down but the overall cost of the new air handling unit plus provisions for temporary heat is estimated around \$200k.

Projects with Excess Funding – Appendices C-1 and C-2

16. Appendix C of the report identifies capital projects by functional area that are either completed and have excess funds, or are still underway but excess funds have been identified based on tender results. All completed projects will be closed.
17. Generally, excess funds are the result of several factors. The common reasons include:
- a) Economies of scale and competitive bid process. Studies were grouped resulting in expedited approvals, economies of scale and further savings through the competitive bid process;
 - b) Better than expected market conditions. These are very hard to predict at the capital planning stage, well in advance of the actual tendering and construction. The market conditions can fluctuate a number of times throughout the year, and can be affected by what other municipalities are doing, or not doing;
 - c) The City includes contingencies in contracts, which in some cases are not utilized. The contingencies are required because of project risks, such as unknown underground installations or soil conditions that cannot be determined prior to construction; and
 - d) Projects are cancelled.

Projects Requiring Additional Council Approved Funding – Appendices D-1 and D-2

18. Appendix D identifies capital projects by functional area that exceed their materiality threshold (the lesser of 10% of the Capital Budget or \$250,000) or where there are insufficient funds

available in the holding accounts. In these instances, Council approval is required for additional funding. The projects are identified as either those that are still active and require additional funds in order to complete or projects that have been completed but require additional funding in order to close them. Staff have provided detailed comments/explanations in the appendix for each project where an over expenditure occurred.

19. The total anticipated over expenditure represents \$13.3M on 30 projects with varying reasons requiring additional funding as described in further detail in Appendix D.
20. The increase in funding from the Marina Reserve for the Marina Bayfield Basin Area Upgrade project will put the reserve in a deficit position.

Projects Requiring Additional Funding (Delegated Authority) – Appendix E

21. Appendix E includes capital projects that have been over spent but are within the materiality threshold established in the Capital Project Financial Control Policy. As per the Capital Project Financial Control Policy, Department Heads, subject to the review by the Director of Finance or delegate, have delegated authority to transfer the required funds from the appropriate holding accounts established for this purpose. This information is being provided for information purposes only.

House Keeping-Projects with Outstanding Balances - Pre-SAP Conversion Clean-up – Appendix F

22. Appendix F is to deal primarily with housekeeping related to older projects with residual balances that have not been fully funded. Most of the projects have been closed in prior years. This exercise is being completed now to clean up accounting records ahead of the data conversion to SAP.
23. The current process is to remove projects when they are closed on capital status reports from the report structure that is used to generate monthly and quarterly capital reports. The unbalanced closed capital projects were identified when Finance staff ran reports to build a capital project conversion file from Great Plains for the new SAP system.

Holding Accounts:

24. As per the Capital Project Financial Control Policy, holding accounts are to be established for the following program areas with the respective target balances not to exceed the following:

• Tax Rate Holding Account	\$3,000,000
• Water Rate Holding Account	\$1,000,000
• Wastewater Rate Holding Account	\$1,000,000
• Parking Rate Holding Account	\$ 100,000

The purpose of these holding accounts is to provide Department Heads, subject to the review by the Director of Finance or delegate, with some flexibility to authorize adjustments to a Capital Project Budget in an amount not to exceed a Council approved materiality threshold. This facilitates effective project management and reduces the need for Council to become engaged in routine project administration matters that not only consumes valuable time at Council meetings, but also risks slowing the project down and generating increased costs due to delay claims, price escalations or other factors.

25. The table below indicates the status of the holding accounts as at September 30, 2016 and year to date activity. With the adjustments proposed in this report, the balance in the holding accounts

will be available in order to deal with future financing needs. The following chart depicts the impact on the holding accounts as a result of the transactions in Appendices B, C, D and E:

Holding Accounts				
	Tax Rate	Water Rate	Wastewater Rate	Parking Rate
Opening Balance	2,784,232	989,228	1,032,575	17,763
Transfers Out	(782,285)	(45,217)	(104,418)	-
Transfers In	613,647	20,000	70,000	-
Closing Balance	2,615,593	964,011	998,157	17,763

ENVIRONMENTAL MATTERS

26. There are no environmental matters related to the recommendations.

ALTERNATIVES

27. There is one alternative available for consideration by General Committee:

Alternative #1 General Committee could choose alternative financing plans to fund the over expenditures such as increasing debt financing.

This alternative is not recommended given Barrie's objective of minimizing debt, and the fact that reserves and reserve funds have sufficient funds available to address the net funding requirements.

LINKAGE TO 2014-2018 STRATEGIC PLAN

28. The recommendations included in this Staff Report support the following goal identified in the 2014-2018 City Council Strategic Plan:

Responsible Spending

29. The Capital Project Financial Policy is a key element of the City's Financial Policy Framework. The transparency and accountability that it requires will support Council's Strategic Goal of responsible spending.