

APPENDIX B

Summary of Financial Concerns and Questions - Edmonton Valley LRT Project

Issue 1 – Project Cost Uncertainty

- 1) Based on a simple extrapolation (not an accurate estimate) of the actual cost per km for the Edmonton Metro Line LRT Extension project, and adding an average of 3% per year construction cost inflation for the average 6 years difference in construction time frame, it appears that the Valley Line LRT project could potentially cost in the order of 75% more than the presented cost of \$1.8 Billion (for Phase 1 – SE to downtown). The City of Edmonton in its own documentation has alarmingly stated – “Construction costs for the (Valley Line SE to W LRT) project *are only known at a conceptual level and are subject to change.*”
 - a. Questions 1a – How was the “conceptual level ... subject to change” estimate completed and how sure can the City of Edmonton be on the costs of this project, before the tenders have even been received from the contractors involved in the RFP process? As of November 2015, the tenders should have been received. What is the latest cost forecast for Phase 1 of this project and what is the stated accuracy of this forecast?
 - b. Questions 1b – It has recently been reported (Edmonton Journal, September 10, 2015, Elise Stolte) that the City of Edmonton has requested studies on how to avoid traffic congestion as a result of the Valley Line LRT project. Potential solutions discussed include a tunnel or bridge over 82nd Avenue at 83rd Street and increasing capacity of other traffic routes. Won't these late, major scope additions considerations push up the costs considerably? If there are such scope additions needed, does the City consider this a related cost to the Valley Line LRT project or a totally separate project?

Issue 2 – Questionable Urgency

- 2) Even though the tenders had not yet been received from the three contractors participating in the RFP process, the City of Edmonton was and is proceeding to change bus routes, buy land, demolish commercial and residential buildings, open up roads to relocate utilities, cut down trees, etc..
 - a. Question 2a – Does this mean that the project is proceeding full steam ahead no matter how many scope additions and no matter what the contractor's estimated costs are?
 - b. Question 2b – Why is it necessary to forge ahead like this without more accurate estimates from contractors, and in the process demolish homes and businesses well before they need to be, in some cases on sections of the route that may not be completed for years?
 - c. Question 2c – Are the City's costs to do all of this preparatory work included in the Valley Line LRT final project costs or are they being covered under other budget allocations?

Issue 3 – Cost Sharing Unknowns

- 3) The P3 cost sharing agreement has the City of Edmonton's share at \$950 Million, based on \$800 Million + \$150 Million in the form of a 10 year interest-free loan from the Province. The Province of Alberta's contribution is \$450 Million (plus the \$150 Million interest-free loan). The Government of Canada's share is \$400 Million.
 - a. Questions 3a – If the actual costs are higher than the presented costs of \$1.8 Billion, who pays the extra? Has it been agreed to by all levels of

government that the extra costs will be prorated per the original agreement? If not, would the taxpayers of the City of Edmonton be responsible for the original share, plus all cost overruns?

- b. Question 3b – If there is some agreement between governments on how financial obligations for potential cost overruns will be assigned, where has this been documented? Please provide this information.

Issue 4 – High Taxpayer Cost Burden

- 4) Even if the City of Edmonton's "conceptual level ... subject to change" cost estimate for the Valley Line LRT project turns out to be accurate, we have estimated that this cost represents a very large Average Cost Burden (ACB) per Edmonton household of approximately \$2,660 for Phase 1 of the project. The calculation and assumptions are in Appendix A, and this ACB is essentially a measure of how much it would cost if all of the citizens of Edmonton were to pay their tax share of the costs in cash, in 2018. The premise is that this or a similar amount of costs, plus debt-servicing fees, will need to be covered by citizens either directly through property taxes and fees or indirectly through rents or costs of goods and services passed on to consumers by businesses. To reiterate, this is applicable only if the City's "conceptual level ... subject to change" cost estimate is accurate. If it is not accurate and the cost is higher, the cost to Edmontonians gets much worse, especially if the cost overruns will not be shared by all levels of government. In the worst-case, if the actual cost is \$3.15 Billion as a simple extrapolation of the Metro Line LRT Extension suggests it could potentially be (and it is even more likely to experience cost overruns if there are scope additions or costly problems with the river valley crossing), and if the City of Edmonton is responsible for all cost overruns beyond \$1.8 Billion, the average cost burden per household could increase to more than \$6,000, again not including debt-servicing costs. This would mean even higher annual tax increases and/or longer repayment periods. The City of Edmonton's \$950 Million share of the cost represents 71% of the entire property taxation revenue for the City of Edmonton in 2015, so it is clear that in any case, this project will need to be paid off by taxpayers over a very long period of time. A January 22, 2015 *Edmonton Journal* article "Limited cash for west Edmonton LRT until 2034" by Elise Stolte is congruent with this concern. A news article in *Edmonton MetroNews* June 19-21 issue (Ryan Tumilty, page 10) reported the average property tax increase in years 2016-2018 would be 6% and 1% of that is attributable to start paying down the Valley Line LRT project. More recent news reports and the City's own 2016 – 2018 Operating Budget pegs the taxation increase for each year at 4.9% with 0.8% of that to support the Valley LRT project - "A multi-year dedicated tax increase of 0.8% is being proposed for the Valley Line LRT to support the construction and future operation of the new Valley Line." New information posted on the City of Edmonton's website states that the newly forecasted 4.9% property tax increase for 2016 would have been 7.7%, except that it was "offset by new revenue from additional properties amounting to a 2.8% reduction in the tax increase". This "new revenue from additional properties" or "Assessment Growth" as it is more succinctly called in the City's budget statements has been moderating and is continuing to moderate. As stated in the City's 2016-2018 Operating Budget, "As the expected slowing of the economy and the resulting reduction in new construction begin to take effect in 2017-2018, the real assessment growth will also moderate, resulting in less new revenue available in the 2017-2018 budgets". In fact, the City has forecasted assessment growth to be 2.8%, 1.7% and 1.65 for 2016-2018 respectively.

- a. Questions 4a – If the City of Edmonton disagrees with our cost assessment and related concerns, please provide the City's own estimates. Has the City done these calculations and presented them to City Council?
- b. Questions 4b – Besides “multi-year dedicated tax increases”, one of the key mechanisms for paying down the massive cost of the Valley LRT Line project is “Assessment Growth”, yet that is moderating and with an uncertain economic future, there is no guarantee of high rates of future assessment growth. And if there is assessment growth, it will require infrastructure costs such as roads and sewers to support it. Existing infrastructure will continue to deteriorate and require costly upgrading. In consideration of all of these factors, how many years does the City of Edmonton forecast that it will take to pay for the City's funding share of the Valley Line LRT Phase 1 project for costs as currently forecasted (see Questions 1a above) and at what average annual tax increase? With compounding assessment growth a key element of debt repayment and yet it is so uncertain, isn't there a significant risk of even longer than two decade debt repayment periods and/or higher tax increases?
- c. Questions 4c – It appears very likely that Edmontonians can expect a generation of high annual tax increases. Will the City acknowledge that 6% or even 4.9% annual tax increases are unsustainable? With this project on the horizon and in consideration of the massive percentage of taxation revenue that this project represents, as well as a review of historical annual average tax increases, how realistic is it to get annual tax increases anywhere close to 3.4%, as now appears to be the goal of City of Edmonton's administration?
- d. Question 4d – Given the estimated large, long-term, and unsustainable tax burden of Valley Line LRT (Phase 1 - SE to Downtown) of this project, when does the City forecast that we will be able to financially support completion of the West Line (Phase 2) of this project?
- e. Question 4e – Enhanced bus transportation, possibly (but not necessarily) right up to Bus Rapid Transit (BRT), could possibly enable provision of comparably effective service improvements over the entire Valley Line and West Line LRT territory for a lower capital cost as the Valley Line only (Phase 1 - SE to Downtown) project and much sooner, with less disruption, and more flexibility. A congruent message was presented by the Edmonton Transit System Advisory Board to City Council on October 7, 2015. Other cities such as Houston have used this solution of revamped bus service to great effect. When the City was asked if a BRT vs. LRT analysis was done for the Valley Line LRT project, the City responded – “In answer to your question, the City didn't perform a BRT vs. LRT analysis, as the preferred transit system for the southeast route has always been LRT”. Given the estimated large, long-term, and unsustainable tax burden of Phase 1 (Valley Line) of this project and the seemingly distant prospects of Phase 2 (West Line) of the project having available funding to complete, why has the City of Edmonton neglected to thoroughly study and implement more cost effective ways of providing transportation service improvements?

Issue 5 – Changing Economic Environment

- 5) The Valley Line LRT SE to West project was conceived and planned between 2009 and the present, mostly in a period of time that saw the local, Canadian, and world economies emerging from recession. Over most of that period (October 2009 – October 2014), WTI oil averaged more than US\$90 per barrel. Now in October 2015 WTI oil is in the mid US\$40s range, the Province of Alberta is forecasting

record deficits, and many thousands of Albertans are losing their jobs as CEOs are forced to respond to the new economic environment and make adjustments to ensure their businesses survive. Yet there is no pause and review for the Valley Line LRT Project.

- a. Question 5a – In light of the drastic change in the Alberta economic environment, will the City and Province agree to a moratorium on this project to ensure that it is the right project at the right time? Specific questions to ask ourselves are:
- b. Question 5b – Why do we need to do this project now?
- c. Question 5c – Is there a better way to do this project or a better project that we could be doing to achieve the desired results more effectively, or more cost efficiently?
- d. Question 5d – Are we doing the right thing with the taxpayers' hard earned dollars? Or is there another project that would do more for the public good than this project?
- e. Questions 5e – We know it is not reasonable to expect that the City would consult taxpayers on every capital project. But this is not every project - it is the largest capital project that the City of Edmonton has ever taken on. Is it not fair and reasonable that taxpayers and all of the citizens of the City of Edmonton should know the true cost of this project and impacts to their future property taxes and fees? Will the City of Edmonton do an objective analysis and provide full disclosure of the alternatives and the costs for each and put the matter to a civic referendum?

Disclaimer:

All financial cost estimates and impacts discussed in this document are presented as high level “for discussion” estimates or impacts. Their accuracy depends on the accuracy of the assumptions applied and the accuracy of available on-line or published information. The assumptions used are believed to be reasonable and efforts were made to ensure all information was obtained from reliable sources. Even so, the cost estimates and impacts within are not represented as and should not be construed as being highly accurate or precise estimates or impacts. If the City of Edmonton disagrees with any of the presented financial information, they are respectfully invited to provide their own financial information, estimates or impacts for discussion or post them on their website to better support full cost transparency for the citizens of Edmonton on this project.