

Capital Financial Update - June 30, 2021

Recommendation

That the September 7, 2021, Financial and Corporate Services report FCS00731, be received for information.

Executive Summary

Administration provides Capital financial updates three times a year. Consistent, transparent and timely financial reporting to City Council is part of managing the corporation for the community. This report provides the June 30, 2021 capital financial update, including updates on significant capital projects, results and projections against the approved 2019-2022 Capital Budget, and the City's forecasted debt and debt servicing.

Report

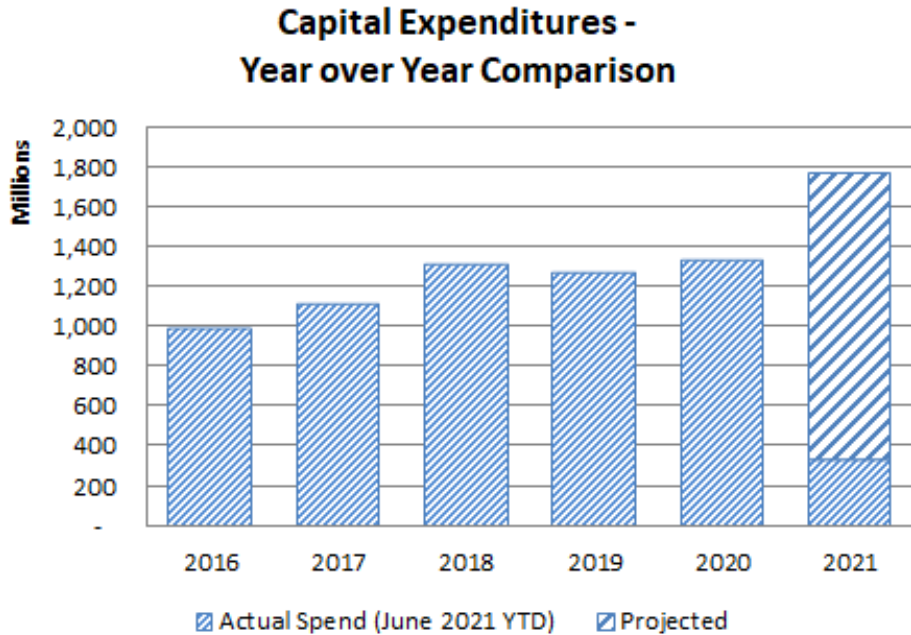
The Capital Financial Update focuses on reporting financial performance of significant capital profiles against the approved 2019-2022 Capital Budget and the status of projects against scheduled completion dates. Significant projects are capital profiles that have expenditures of at least \$20 million within the 2019-2022 Capital Budget cycle; or profiles that are highly strategic, complex, include many stakeholders, have major constraints, and/or include a high level of risk. For the period ended June 30, 2021, 72 profiles met this definition and are considered significant projects for financial reporting purposes. When combined, these profiles account for 84.3 percent of the total approved Capital Budget.

2019-2022 Capital Budget Performance against Planned Performance

The total approved 2019-2022 Capital Budget is \$11,056.9 million, which includes \$1,273.4 million carry forward from the 2015-2018 Capital Budget and \$3,544.1 million in approved capital expenditures for projects with completion dates beyond 2022. Budgeted expenditures for the years 2019-2022 total \$7,512.8 million.

The 2019-2022 Capital Budget is composed of 399 active profiles (272 standalone profiles and 127 composite profiles). Composite profiles include funding for multiple projects that are similar in nature; for example, Neighbourhood Renewal program funding is held in a single composite profile. At the completion of preliminary design - Checkpoint 3 of the Project Planning and Delivery Model (PDDM) and where project estimates reach \$2 million for growth projects and \$5 million for renewal projects - project budgets are removed from the composite profile and standalone profiles are established.

Expenditure Comparison



The projected expenditures of \$1,778.6 million for 2021 is significantly higher than the 2020 expenditures due to greater construction activity as a result of progress on LRT Valley Line to Lewis Farms, Yellowhead Trail Freeway Conversion, and the start of the Terwillegar Drive Expansion project.

Budget Cycle Spend

Budgeted expenditures for the years 2019-2022 total \$7,512.8 million. As of June 30, 2021, 2.5 years into the four year budget cycle, the City spent \$2,940.3 million, or 39.1 percent of the budgeted capital expenditures in the four year period. For comparison, planned expenditures for the four years period 2015-2018 totalled \$5,954.0 million, of which 36.9 percent was spent as at the same period within that cycle, June 30, 2017. The majority of the increased spending in the 2019-2022 Budget Cycle can be attributed to LRT projects, primarily the construction of Valley Line Southeast.

Attachment 1 provides the budgeted capital expenditures within and beyond the 2019-2022 period for tax-supported, enterprise and utility operations, as well as the allocation of the Capital Budget by department.

Capital Project Reporting

Of the 399 active profiles within the 2019-2022 Capital Budget, 72 are considered significant for the June 30, 2021 Capital Financial Update (46 standalone and 26 composite). These 72 profiles represent 84.3 percent of the dollar value of the approved capital budget. Since the last Capital Financial Update reporting to December 31, 2020, nine new profiles have been added:

- Yellowhead Trail - 156 Street to St Albert Trail
- Yellowhead Trail - Fort Road Widening
- NRP/NARP Recon - Beaumaris Neighbourhood and Alleys
- NRP Recon - Calder
- NRP Recon - Garneau
- NRP Recon - Malmo Plains
- 103A Avenue Pedway
- Electric Buses - ZEB Program
- Capital Line South LRT: Century Park to Ellerslie Road

Two composite profiles were removed since the Q4 2020 report due to the budget being transferred to standalone profiles for projects that have reached Checkpoint 3, resulting in their budget dropping below the \$20 million significant capital project threshold:

- The Quarters Downtown - Phase II
- Rural and Industrial Road Upgrading

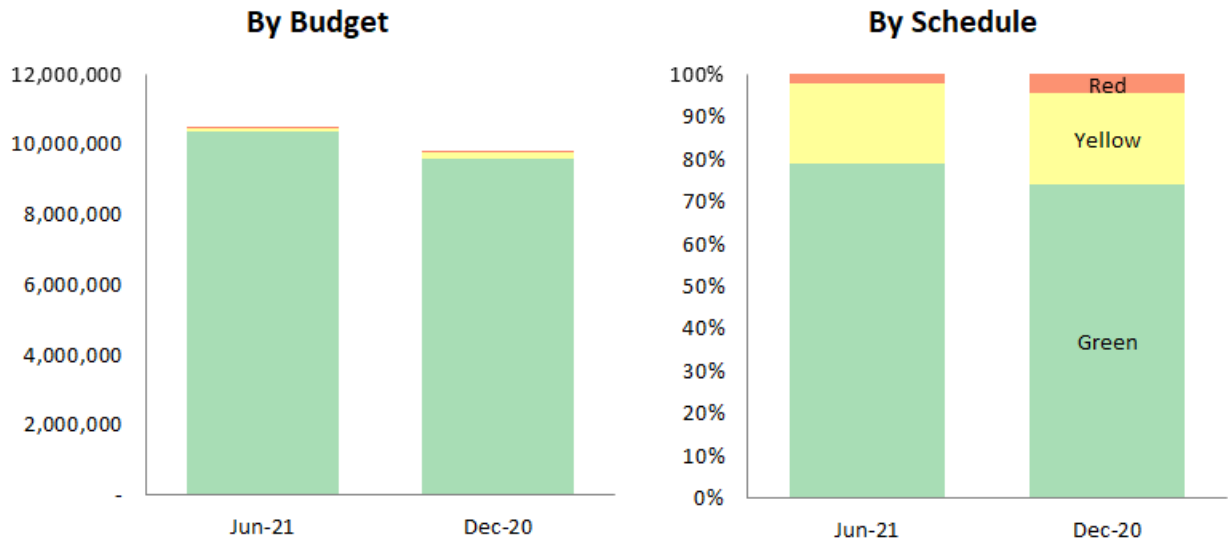
Four profiles have been removed since the Q4 2020 report as they are substantially complete and in service:

- Library Materials
- Northwest Campus
- High Solids Anaerobic Digestion Facility
- The Orange Hub

Capital Profile Performance

As of June 30, 2021, the majority of capital profiles, weighted by approved budget, are within an acceptable tolerance (profiles with a green or yellow status) for budget (99.6 percent) and schedule (97.6 percent). Of the 72 profiles reported, 71 are within the acceptable tolerance for budget status, and 65 are within the acceptable tolerance for schedule status.

The following charts present the budget and schedule status of significant capital profiles weighted by the approved budget of the profile. Budget includes total budget by profile regardless of the year of expenditure.



**Project status in the charts above are presented with green status on the bottom, yellow in the middle, and red at the top, as noted in the right chart. The status charts are weighted by the profiles approved budget.*

***The red status for June 2021 in the budget chart (chart on the left) relates to a few projects within composites reporting red for budget, however the majority (85%+) of the projects within those composite profiles are reporting within the acceptable tolerance of green or yellow status for budget.*

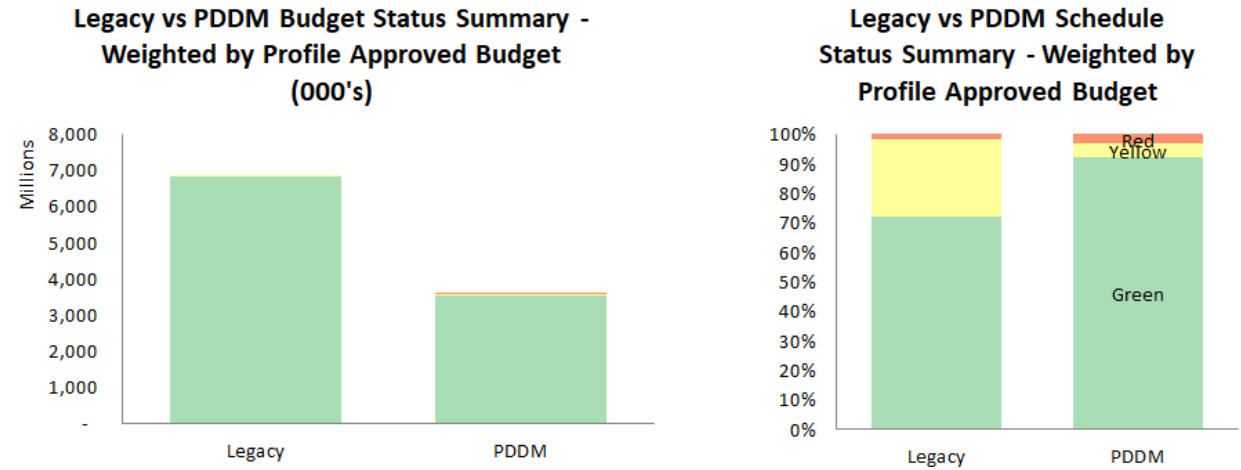
Project Development and Delivery Model

The Project Development Delivery Model (PDDM) was implemented in April 2017. While a number of projects have commenced using this model, to date no significant profiles have reached completion under PDDM. Of the 46 significant standalone capital profiles in this report, 27 profiles are being delivered from their inception under PDDM. Of these, all 27 are reporting within an acceptable tolerance (profiles with green or yellow status) for budget and 25 of the 27 are within acceptable tolerance for schedule.

The majority of composite profiles are new in the 2019-2022 Capital Budget and, as a result, 57.9 percent of the approved budget for significant composite profiles is being delivered under the PDDM. As of June 30, 2021, 99 percent of the approved budget for significant projects are within an acceptable tolerance for budget and 96.7 percent of profiles are within an acceptable tolerance for schedule.

The charts below compare current projected performance of the significant legacy profiles to the significant PDDM profiles. A larger majority of significant profiles were in progress prior to the implementation of PDDM. As the legacy projects are completed and removed from the list of active projects, the majority of the projects reported will be those delivered under the PDDM. Early results show improved budget and schedule performance for PDDM projects compared to legacy-managed profiles. The

improved performance can be attributed, in part, to PDDM’s methodology of adapting the budget and schedule based on more advanced designs.



Exchange Rate Risk

According to the Conference Board of Canada’s July 2021 Financial Markets Outlook, the exchange rate (Canadian dollar per US dollar) is expected to strengthen from an annual average of 1.34 in 2020 to 1.23 in 2021, and then holding at that level in 2022. The quarterly forecasts indicate expectations for the exchange rate to come down from an average of 1.27 in Q1 2021 to an average rate of 1.21 in Q3, and from there, gradually increase to reach 1.23 by the end of 2022. The average quarterly exchange rate forecast from Canada’s five largest chartered banks for 2021 is 1.25, a modest improvement from the Q4 2020/Q1 2021 average forecast. The average forecast for 2022 is 1.26.

Changes in currency exchange rate expectations can inform project financial performance to varying degrees, depending on the type of project. For example, labour, equipment and materials for many road and open space projects can be sourced locally, which means the financial performance of these types of projects have lower exchange rate risk. By comparison, construction projects with components that are not sourced locally, such as plumbing, mechanical and electrical components, are at a greater risk of cost pressures resulting from changes in the exchange rate. Fleet and Infrastructure Technology (IT) projects face moderate to higher risks due to a higher likelihood of procurement originating from the United States.

See Attachment 2 of the September 7, 2021, Financial and Corporate Services report FCS00754 - Operating Financial Update - December 31, 2020 for further economic information.

Debt Update

The City is projected to finish the 2021 fiscal year using 59.8 percent of the *Municipal Government Act* (MGA) debt limit, with a projected \$3.60 billion of outstanding debt, an anticipated net increase of \$192 million from 2020. This includes projected borrowings of \$182 million tax-supported debt and \$85 million self-liquidating debt through the Government of Alberta's Treasury Board and Finance¹, as well as \$60 million in Public Private Partnership (P3) financing for Valley Line Southeast.

The City's 20-year borrowing rates have increased by 0.263 percent over the past year, going from 2.257 percent in June 2020 to 2.520 percent in June 2021. City rates through Treasury Board and Finance sourced debentures remain fixed for the full term of the borrowing.

Attachment 3 provides outstanding debt and debt servicing projections based on currently approved capital projects using debt financing. These projections are compared to both the externally imposed MGA debt limits and the City's more restrictive debt limits set in Policy C203C - Debt Management Fiscal Policy.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position			
Outcome(s)	Measure(s)	Result(s)	Target(s)
City budget reporting demonstrates corporate accountability and performance	Percentage of significant capital profiles that are projected to be within acceptable tolerance (green/yellow status)	97.28% (as of June 30, 2021)	100%
Ensure transparent, conservative and reasonable debt financing as a source of funding to support the City's long-term capital plans and strategies while maintaining long-term financial affordability, flexibility and sustainability.	<p>- The City of Edmonton is subject to limits both for total debt and debt servicing by the <i>Municipal Government Act</i> and by the City's internal <i>Debt Management Fiscal Policy (C203C)</i>:</p> <ul style="list-style-type: none"> ● The <i>Municipal Government Act</i> debt limit is two times the revenue of the City and the debt servicing limit is 35% of City revenues. For this calculation, revenues are net of capital government transfers and contributed tangible capital assets. ● The internal <i>Debt Management Fiscal Policy (C203C)</i> sets more conservative debt service limits at 22% (total debt) of City revenues and 15% (tax-supported debt) of Tax Levy Revenues. 	<p>- Based on the limits set under the <i>Municipal Government Act</i>, for December 31, 2021, the City is projected to use 59.8% of its debt limit and 28.1% of its debt servicing limit.</p> <p>- Based on the limits under the <i>Debt Management Fiscal Policy</i>, for December 31, 2021, the City is projected to use 44.6% of its tax-supported debt servicing limit and 59.5% of its total debt servicing limit.</p>	Total debt and debt servicing are below the limits set by the <i>Municipal Government Act</i> and by the internal <i>Debt Management Fiscal Policy (C203C)</i> .

¹ Formerly borrowed through the Alberta Capital Finance Authority (ACFA)

Attachments

1. Capital Results - 2019 to 2022
2. Capital Financial Update - June 30, 2021
3. Debt Update - June 30, 2021

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- K. Armstrong, Deputy City Manager, Employee Services
- R. Smyth, Deputy City Manager, Citizen Services
- S. McCabe, Deputy City Manager, Urban Planning and Economy
- K. Fallis-Howell, Acting City Solicitor