

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2021

RECOMMENDATION

That the November 22, 2021, Financial and Corporate Services report FCS00829, be received for information.

Report Purpose

Information only

Updates on significant capital projects, results and projections against the approved 2019-2022 Capital Budget are provided in this report for Council's 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 September 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.
- As of September 30, 2021, the majority of capital profiles, weighted by approved budget, are within an acceptable tolerance for budget (97.6 per cent) and schedule (97.1 per cent). Of the 70 profiles reported, 67 are within the acceptable tolerance for budget, and 62 are within the acceptable tolerance for schedule.

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 defined as 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.

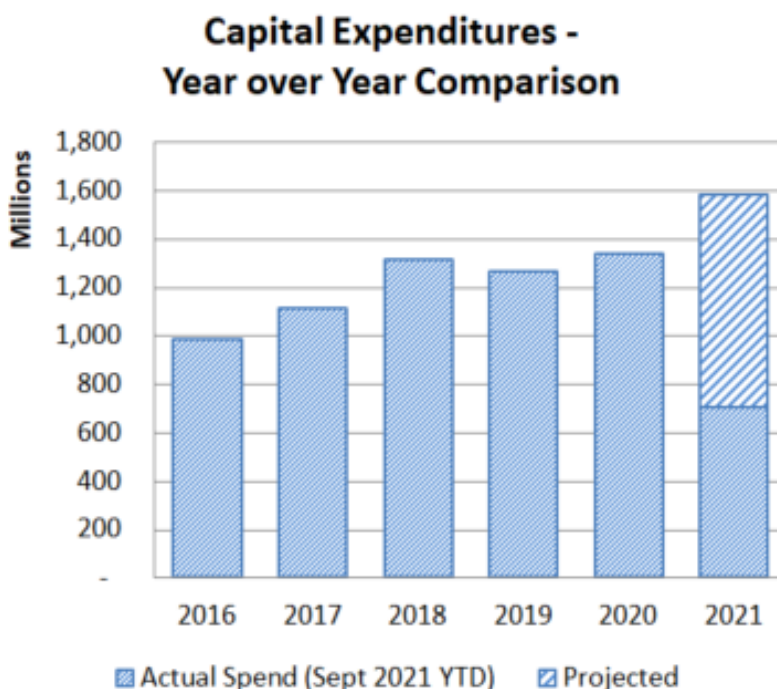
CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2021

2019-2022 Capital Budget and Projected Expenditures

The total approved 2019-2022 Capital Budget is \$11.1 billion, which includes \$1.3 billion carry forward from the 2015-2018 Capital Budget and \$3.5 billion in approved capital expenditures for projects with completion dates beyond 2022. Budgeted expenditures for the years 2019-2022 total \$7.5 billion.

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 \$1.6 billion for 2021 are 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, the start of the Terwillegar Drive Expansion project, and the Municipal Stimulus Program which included accelerated and one time capital investments in 2021.

Budget Cycle Spend

Budgeted expenditures for the years 2019-2022 total \$7.5 billion. As of September 30, 2021, 2.75 years into the four year budget cycle, the City spent \$3.3 billion, or 44.2 per cent of the budgeted capital expenditures in the four year period. For comparison, planned expenditures for the four year period 2015-2018 totalled \$6.0 billion, of which 43.2 per cent was spent at September 30,

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2021

2017. The majority of the increase in capital 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, 70 are considered significant for reporting within the September 30, 2021 Capital Financial Update (45 standalone and 25 composite). These 70 profiles represent 84.3 per cent of the dollar value of the approved capital budget. Since the last Capital Financial Update reporting to June 30, 2021, no new profiles have been added. Two profiles have been removed since the September 7, 2021, City Council report (FCS00731 - Capital Financial Update - June 30, 2021) as they are substantially complete and in service:

- Fort Edmonton Park - Utilities & Enhancements
- Electric Buses

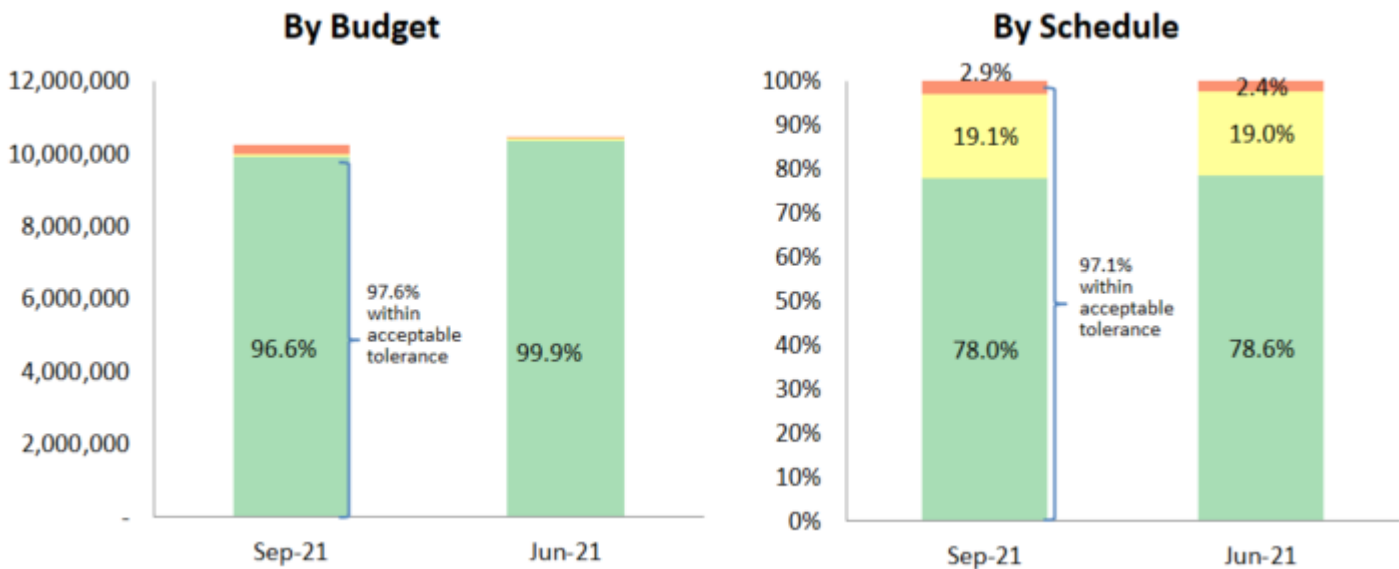
Capital Profile Performance

Red status for a significant capital profile is defined as a project greater than 20 per cent (30 per cent for profiles in the develop stage) variance from budget or schedule, while yellow status reflects between zero per cent -20 per cent (30 per cent for develop stage) projected variance from budget or schedule. Green status reflects that the capital profile is currently projected to be on time or on budget. Attachment 2 provides additional details on these definitions.

As of September 30, 2021, the majority of capital profiles, weighted by approved budget, are within an acceptable tolerance for budget (97.6 per cent) and schedule (97.1 per cent). Projects within the green or yellow status are considered to be within an acceptable tolerance. Of the 70 profiles reported, 67 are within the acceptable tolerance for budget, and 62 are within the acceptable tolerance for schedule.

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.

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2021



*Project status in the charts above are presented with green status on the bottom, yellow in the middle, and red at the top. The status charts are weighted by the profile's approved budget.

The red status for September 2021 in the budget chart (chart on the left) relates to 50th Street CPR Grade Separation, and Coronation Community Recreation Centre in addition to a few projects within composites reporting red for budget, however the majority (greater than 85 per cent) 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

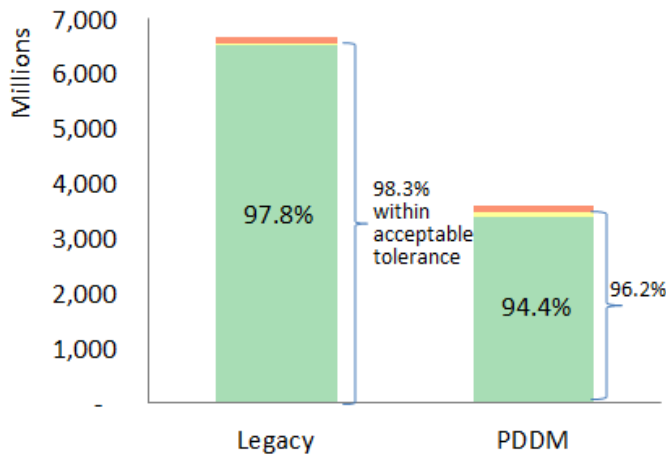
The Project Development Delivery Model (PDDM) was implemented in April 2017 as part of Council's Capital Governance Policy (C591). While a number of projects have commenced using this model, to date no significant profiles have reached completion under PDDM. Of the 45 significant standalone capital profiles in this report, 27 profiles are being delivered from their inception under PDDM. Of these, 26 are reporting within an acceptable tolerance (profiles with green or yellow status) for budget and 26 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 per cent of the approved budget for significant composite profiles is being delivered under the PDDM. As of September 30, 2021, 96.2 per cent of the approved budget for significant PDDM projects are within an acceptable tolerance for budget and 96.0 per cent of profiles are within an acceptable tolerance for schedule.

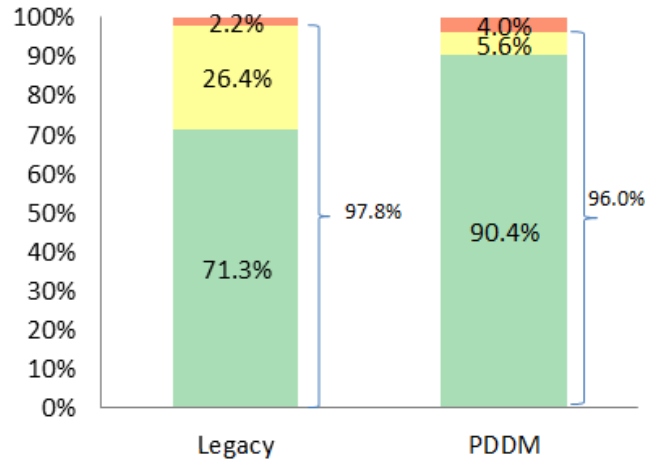
The charts below compare current projected performance of the significant legacy profiles to the significant PDDM profiles. A majority of significant profiles were in progress prior to the implementation of PDDM. As the legacy projects are completed and removed from the list of active projects, more 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.

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2021

Legacy vs PDDM Budget Status Summary - Weighted by Profile Approved Budget (000's)



Legacy vs PDDM Schedule Status Summary - Weighted by Profile Approved Budget



*Project status in the charts above are presented with green status on the bottom, yellow in the middle, and red at the top. The status charts are weighted by the profile's approved budget.

Integrated Infrastructure Services (IIS) Composite Program Budgets

The renewal composites are central to the financial management of the City's Capital renewal program. In most cases, a combination of profiles represent a holistic renewal program. As an example the following core profiles make up the Facility Renewal Program:

- CM-11-0000 - Facility: Safety and Security - Renewal ,
- CM-12-0000 - Facility: Service Deliver - Renewal, and
- CM-13-0000 - Facility: Service Support - Renewal

A number of standalone profiles that were funded via these core composite profiles are also part of the program. Renewal projects under \$5 million remain in the composite profiles, and the profiles remain a dedicated source of funding for both smaller facility renewal projects and larger related facility renewal standalone profiles required for projects in excess of \$5 million.

Overall, the renewal program is on track given the current point in the four year capital cycle. Because the programs are divided into a number of core profiles, it was anticipated from the start of this capital budget that at some point a rebalancing of the program profiles would need to occur. This rebalancing is required to reflect the actual program expenditure distribution in the program's core profiles as the programs were divided into their respective profiles at the start of the capital cycle based on preliminary estimates. As of the date of the third quarter reporting period, these adjustments have not been made, however the Fall 2021 Supplemental Capital Budget Adjustment (SCBA) proposes the necessary rebalancing adjustments. These adjustments will alleviate some of the larger offsetting variances.

Projections for composite profiles are based on individual projects within the overall program. Collectively, a very large delivery program is expected between the start of Q4 2021 to the end of Q4 2022. It is possible a number of these projects will be delayed into 2023.

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2021

Economic Risks

The Conference Board of Canada is predicting a quarterly exchange rate (i.e., Canadian dollars per United States dollars) of 1.25 in Q4 2021, according to their October 2021 Financial Markets Outlook report. This represents expectations for a weaker Canadian dollar compared to their July 2021 forecast for Q4 2021 of 1.21. The Conference Board's updated Q4 2021 forecast is relatively close to the latest quarterly average forecast from Canada's five largest chartered banks of 1.24. In 2022, the Conference Board expects the exchange rate to average 1.26, followed by an annual average of 1.27 in 2023. The Conference Board's updated exchange rate forecast reflects expectations for the Canadian dollar to weaken over the medium term, corresponding to oil prices anticipated to move lower as global supply catches up to demand.

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.

Another risk to project financial performance that Administration is monitoring is related to additional price pressures coming from pandemic-related supply chain disruptions and transportation bottlenecks. This risk is expected to persist over the near term and to start gradually unwinding over 2022. 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 58.6 per cent of the *Municipal Government Act* (MGA) debt limit, with a projected \$3.5 billion of outstanding debt, an anticipated net increase of \$115 million from 2020. This includes projected borrowings of \$167 million tax-supported debt and \$74 million self-liquidating debt through the Government of Alberta's Treasury Board and Finance, 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 0.415 per cent over the past year, going from 1.882 per cent in September 2020 to 2.297 per cent in September 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 City Policy C203C - Debt Management Fiscal Policy.

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2021

COMMUNITY INSIGHT

As the financial updates provide the quantitative progress of projects and services that undertake their own efforts to gain insight from Edmontonians, additional community insight is not sought for these reports.

GBA+

As the financial updates provide the quantitative progress of projects and services that each have individual implications for GBA+, additional GBA+ analysis is not completed for these reports.

ATTACHMENTS

1. Capital Results - 2019 to 2022
2. Significant Capital Project Update as of September 30, 2021
3. Debt Update - September 30, 2021