

CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2021

RECOMMENDATION

That the March 14, 2022, Financial and Corporate Services report FCS01019, 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 December 31, 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 December 31, 2021, the majority of capital profiles, weighted by approved budget, are within an acceptable tolerance for budget (99.9 per cent) and schedule (80.4 per cent). Of the 69 profiles reported, all are within the acceptable tolerance for budget, and 61 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 - DECEMBER 31, 2021

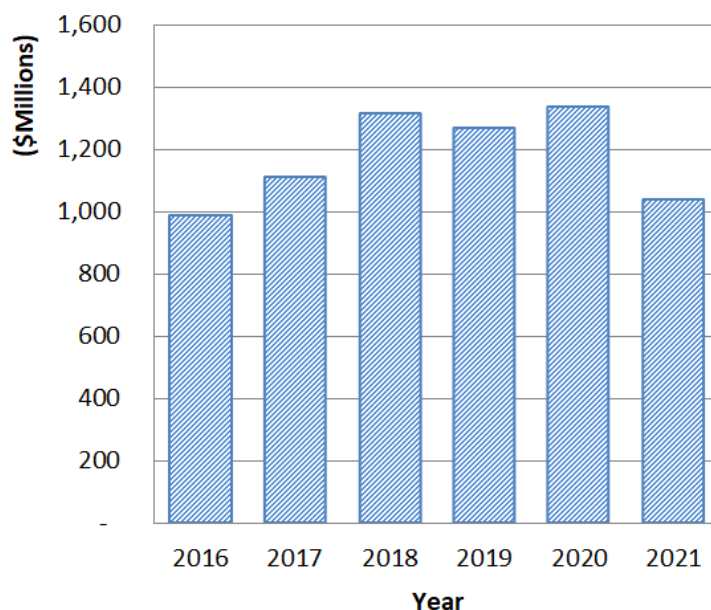
2019-2022 Capital Budget Performance Compared to Budget

The total approved 2019-2022 Capital Budget is \$11.7 billion, which includes \$1.3 billion carry forward from the 2015-2018 Capital Budget and \$4.3 billion in approved capital expenditures for projects with completion dates beyond 2022. Budgeted expenditures for the years 2019-2022 total \$7.4 billion.

The 2019-2022 Capital Budget is composed of 414 active profiles (286 standalone profiles and 128 composite profiles). Composite profiles include funding for multiple projects that are similar. For example, Neighbourhood Renewal program funding is held in a single composite profile. At the completion of preliminary design - Checkpoint 3 of the Project Development 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.

2021 Expenditure Comparison

Capital Expenditures (Actuals)



The expenditures of \$1.0 billion for 2021 are below spending from the previous two years, which is primarily due to a decrease in spending in 2021 concentrated on LRT line construction and more bus fleet deliveries in 2020 compared to 2021. This was partially offset by higher spending in 2021 on non-LRT construction, mostly attributed to arterial renewal funded by the Municipal Stimulus Program grant and increased activity on the Yellowhead Trail Conversion Project. It is anticipated that 2022 will see an increase in spending as projects such as Valley Line West, Metro Line Phase I and Yellowhead Trail Conversion progress further into construction.

Budget Cycle Spend

Budgeted expenditures for the years 2019-2022 total \$7.4 billion. As of December 31, 2021, three years into the four year budget cycle, the City spent \$3.7 billion, or 49.1 per cent of the budgeted capital expenditures in the four year period. For comparison, planned expenditures for the

CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2021

previous four year budget cycle, from 2015-2018, totalled \$6.0 billion, of which 49.6 per cent was spent at December 31, 2017.

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 414 active profiles within the 2019-2022 Capital Budget, 69 are considered significant for reporting within the December 31, 2021, Capital Financial Update (46 standalone and 23 composite). These 69 profiles represent 84.5 per cent of the dollar value of the approved capital budget. Since the last Capital Financial Update reporting to September 30, 2021, nine new profiles have been added.

- Ambleside Integrated Site - Phase I
- Fire Station #8 Relocation - Blatchford
- EPS - Police Headquarters Rehabilitation
- Edmonton Convention Centre Rehabilitation
- Kinsmen Sports Centre Facility Rehabilitation
- The Orange Hub Phase II Rehabilitation
- Edmonton EXPO Centre Rehabilitation
- Valley Zoo - Nature's Wild Backyard Phase II
- Infrastructure Delivery - Growth

Seven profiles have been removed since the last Capital Financial Update reporting to September 30, 2021 as they are now substantially complete and in service:

- Neighbourhood Renewal Program Reconstruction - Central McDougall
- Neighbourhood Renewal Program Reconstruction - Highlands
- Neighbourhood Renewal Program Reconstruction - Inglewood
- Neighbourhood Renewal Program Reconstruction - Strathcona
- Neighbourhood Renewal Program Reconstruction - Grandview Heights
- Edmonton Convention Centre Underground Structure Renewal
- Imagine Jasper 109 -114 St - Phase 1

Three profiles were removed since the Capital Financial Update reporting to September 30, 2021, report as their budgets are now below the \$20 million significant capital project threshold. These projects are composite profiles that have had projects reach checkpoint 3 for which standalone profiles have been created, resulting in the budget remaining in these composite profiles being less than \$20 million:

- Facility: Service Support - Renewal
- Transportation: Public Transit - Renewal
- Open Space: Parks - Renewal

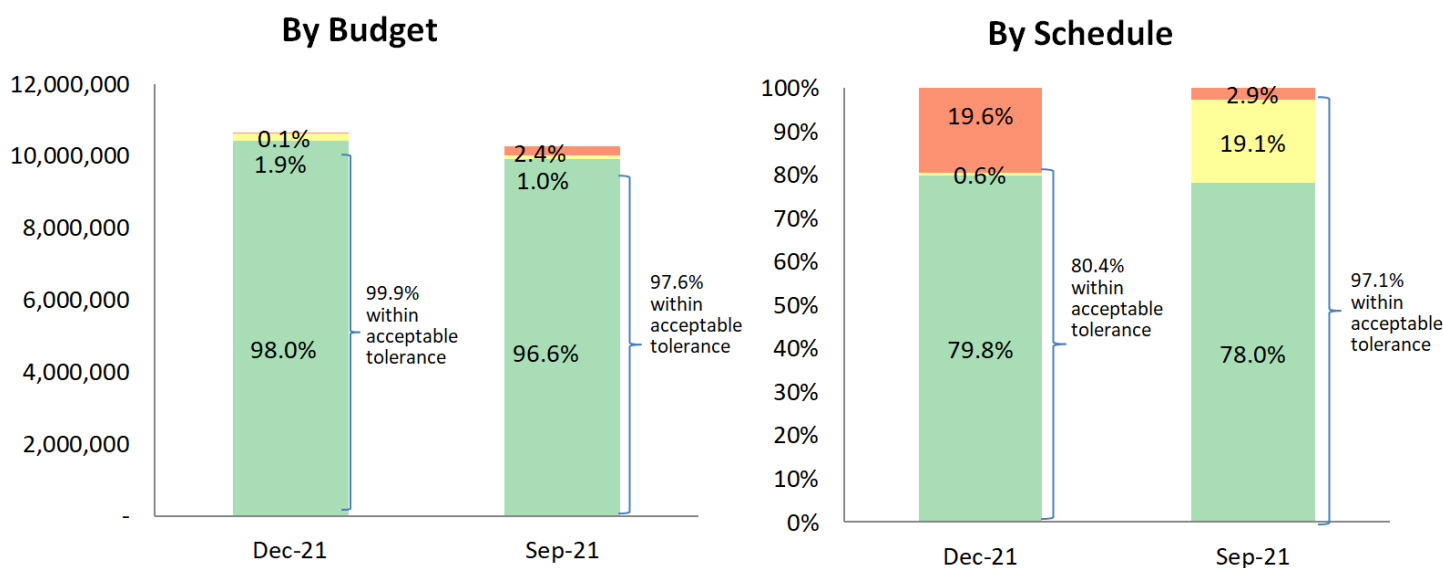
CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2021

Capital Profile Performance

Red status for a significant capital profile is defined as a project with a 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 and 20 per cent (30 per cent for profiles in 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 December 31, 2021, the majority of capital profiles, weighted by approved budget, are within an acceptable tolerance for budget (99.9 per cent) and schedule (80.4 per cent). Projects within the green or yellow status are considered to be within an acceptable tolerance. Of the 69 profiles reported, all are within the acceptable tolerance for budget, and 61 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.



**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 December 2021 in the budget chart (chart on the left) relates to a few projects being delivered within composite programs, and the red status for schedule is primarily made up of Valley Line Southeast, 50th Street Grade Separation and Transit Smart Fare System (full list can be found on page 2 of Attachment 2). The increase in red status projects for schedule is primarily due to the Valley Line Southeast now projecting service commencement in summer 2022.

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 46

CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2021

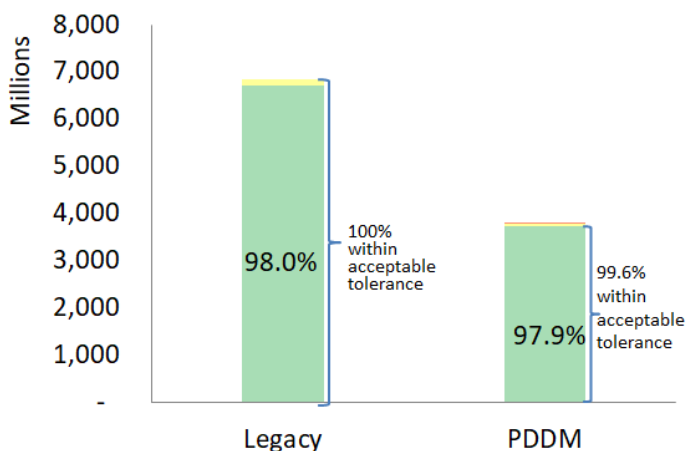
significant standalone capital profiles in this report, 27 profiles are being delivered from their inception under PDDM. Of these, all are reporting within an acceptable tolerance for budget and 26 of the 27 are within acceptable tolerance for schedule. Acceptable tolerances are those profiles identified as green or yellow status.

The majority of composite profiles are new in the 2019-2022 Capital Budget and, as a result, 57.2 per cent of the approved budget for significant composite profiles is being delivered under the PDDM.

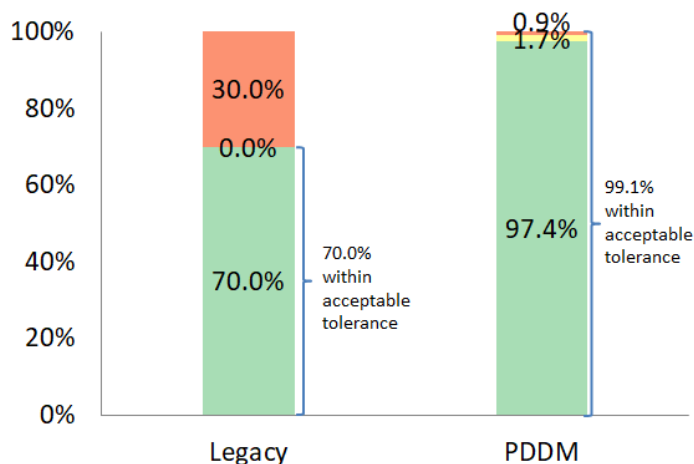
As of December 31, 2021, 99.6 per cent of the approved budget for significant PDDM projects are within an acceptable tolerance for budget and 99.1 per cent of profiles are within an acceptable tolerance for schedule.

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 schedule performance for PDDM projects compared to legacy-managed profiles, while budget performance has been fairly consistent. The stable budget performance and improved scheduling performance can be attributed, in part, to PDDM's methodology of adapting the budget and schedule based on more advanced designs.

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 composite profiles make up the City's facility renewal program:

- CM-11-0000 - Facility: Safety and Security - Renewal

CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2021

- CM-12-0000 - Facility: Service Delivery - Renewal
- 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.

The renewal program composite programs are progressing as planned, and in some cases additional renewal work may be advanced in 2022, depending on resource and budget availability. The renewal program is also facing increased cost pressures largely related to supply chain issues and economic impacts on the price of material as a result of the pandemic. As a result, certain renewal composites in Attachment 2 are projecting spending in this cycle greater than the current approved budgets. Administration will manage the delivery of the renewal program by reallocating funds amongst renewal composites to best meet the objectives of the program, and staging work in the remainder of this cycle and the next capital budget cycle to align with available resources. The goal is to manage the renewal program within the existing approved budget, however, if additional funding is required to deliver urgent aspects of the renewal program in 2022, Administration may return with a funding request in the Spring 2022 Supplemental Capital Budget Adjustment.

Economic Risks

Economic risks to capital project financial performance tend to focus on factors impacting costs, such as foreign exchange rates and the cost for materials and labour. 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 information technology (IT) projects face moderate to higher risks due to a higher likelihood of procurement originating from the United States, which makes exposure to the US-CAD exchange rate more relevant.

According to the Conference Board of Canada's February 2022 Financial Markets Outlook, the US-CAD exchange rate is predicted to rise from an annual average rate in 2021 of 1.25 to 1.28 in 2022, and to 1.30 in 2023. This forecast reflects expectations of higher US interest rates and oil prices trading in the US\$65-70 range. However, with oil prices trading well above that range in February 2022, there may be some downside risks associated with their latest exchange rate forecast for this year. Based on the latest exchange rate forecasts from major Canadian banks, most are suggesting some relative appreciation in the Canadian dollar against the US dollar in 2022 compared to 2021.

Cost inflationary pressures for equipment and materials are being influenced primarily by global supply chain disruptions, including transportation bottlenecks. Indicators for supplier delivery times and transportation costs appear to be stabilizing, though levels remain elevated, according

CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2021

to recent remarks from the Governor of the Bank of Canada, Tiff Macklem. The Bank of Canada expects that it will take some time for these factors to normalize though, which means elevated price pressures remain a risk to capital project financial performance at least over the near to short-term. Even if price pressures were to ease, it does not mean that prices will see a reversal.

See Attachment 3 of the March 14, 2022, Financial and Corporate Services report FCS00979 - Operating Financial Update - December 31, 2021 for further economic information.

Debt Update

The City is projected to finish the 2021 fiscal year using 59.0 per cent of the *Municipal Government Act* (MGA) debt limit, with a projected \$3.5 billion of outstanding debt, an anticipated net increase of \$140 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.

In December 2021, the Province announced new loan pricing for local authorities that includes an increase of approximately 0.5 per cent to 0.75 per cent over rates the City received in the past. This will impact operating budgets by requiring additional tax levy to fund future debt servicing on new projects financed with tax-supported debt. Further increases to the debt will not only be more costly, they could also impact the City's credit rating by further increasing the City's debt burden, especially if the City relies heavily on debt funding in the 2023-2026 Capital Budget.

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.

COMMUNITY INSIGHT

The City listens to the needs, desires and financial realities of residents, businesses and other stakeholders as it recommends capital investments to Council for consideration. As many capital projects are designed and delivered, the community is involved in those processes through listening activities and formal public engagement. The City understands that Edmontonians are looking for all capital projects to be delivered in an efficient and effective manner (on time, on budget and on purpose). The City is committed to meeting those expectations.

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 specifically for these reports.

ATTACHMENTS

1. Capital Results - 2019 to 2022
2. Significant Capital Project Update as of December 31, 2021

CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2021

3. Debt Update - December 31, 2021