

## CAPITAL FINANCIAL UPDATE - JUNE 30, 2022

### RECOMMENDATION

That the August 29, 2022, Financial and Corporate Services report FCS01373, be received for information.

<b>Requested Council Action</b>	Information only		
<b>ConnectEdmonton's Guiding Principle</b>	<b>ConnectEdmonton Strategic Goals</b>		
<b>CONNECTED</b> This unifies our work as we work to achieve our strategic goals.	n/a		
<b>City Plan Values</b>	n/a		
<b>City Plan Big City Move(s)</b>	n/a	<b>Relationship to Council's Strategic Priorities</b>	Conditions for service success
<b>Corporate Business Plan</b>	Managing the corporation		
<b>Council Policy, Program or Project Relationships</b>	<ul style="list-style-type: none"> <li>2019-2022 Capital Budget</li> <li>C203C Debt Management Fiscal Policy</li> </ul>		
<b>Related Council Discussions</b>	<ul style="list-style-type: none"> <li>FCS01144 Spring 2022 Supplemental Capital Budget Adjustment, City Council, June 7, 2022</li> </ul>		

### 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.

## **CAPITAL FINANCIAL UPDATE - JUNE 30, 2022**

- This report provides the June 30, 2022, 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 June 30, 2022, the majority of capital profiles, weighted by approved budget, are within an acceptable tolerance for budget (98.6 per cent) and schedule (82.3 per cent). Of the 70 profiles reported, 69 are within the acceptable tolerance for budget, and 65 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.

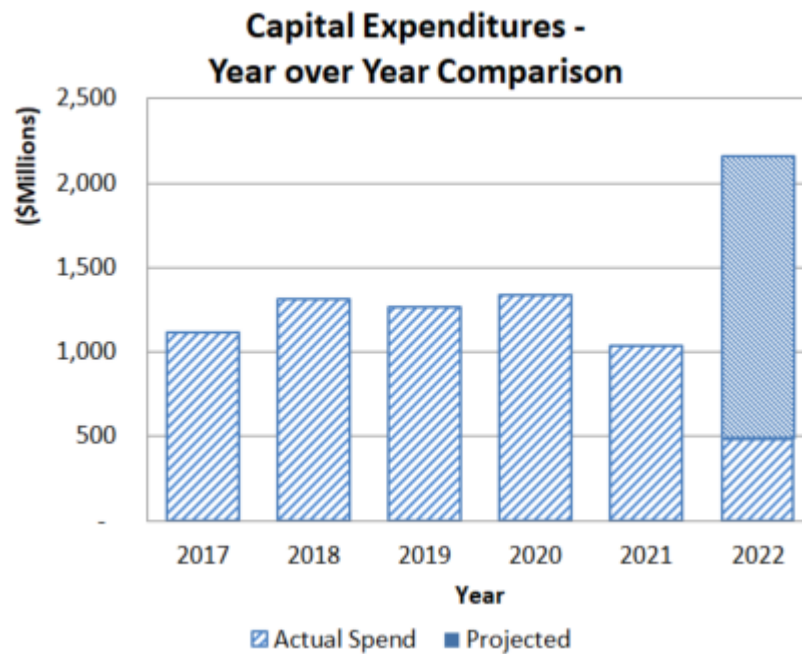
### **2019-2022 Capital Budget Performance Compared to Budget**

The total approved 2019-2022 Capital Budget is \$11.8 billion, which includes \$1.3 billion carry forward from the 2015-2018 Capital Budget and \$4.5 billion in approved capital expenditures for projects with completion dates beyond 2022. Budgeted expenditures for the years 2019-2022 total \$7.3 billion.

The 2019-2022 Capital Budget is composed of 412 active profiles (285 standalone profiles and 127 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.

### Expenditure Comparison

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The projected expenditures of \$2,155 million for 2022 is significantly higher than 2021 expenditures due to greater construction activity for major city-building projects including:

- Valley Line West LRT;
- finalizations for the Valley Line Southeast LRT;
- commencement of the New Transit Bus Garage;
- Yellowhead Trail Freeway Conversion; and
- Terwillegar Drive Expansion project.

The 2022 forecast assumes a significant amount of construction activity in the last six months of 2022; however based on historical trends, the City can expect that a portion of the projected expenditure and related budget will be carried forward to 2023.

### Budget Cycle Spend

Budgeted expenditures for the years 2019-2022 total \$7.3 billion. As of June 30, 2022, three and a half years into the four year budget cycle, the City spent \$4.1 billion, or 56.7 per cent, of the budgeted capital expenditures in the four year period. For comparison, planned expenditures for the previous four year budget cycle, from 2015-2018, totalled \$6.0 billion, of which 58.5 per cent was spent at June 30, 2018.

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 412 active profiles within the 2019-2022 Capital Budget, 70 are considered significant for reporting within the June 30, 2022, Capital Financial Update (50 standalone and 20 composite). These 70 profiles represent 83.6 per cent of the dollar value of the approved capital budget. The

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last Capital Financial Update - December 31, 2021 (presented to City Council on March 14, 2022 report FCS01019) included 69 profiles considered significant for reporting. Since that update, seven new profiles have been added and five profiles have been removed as explained below:

The following seven profiles have been added:

- New Transit Bus Garage
- Edmonton-Strathcona County Pedestrian Bridge
- Iron Works Building Rehabilitation
- 124 Street - 109 Avenue to 118 Avenue Rehabilitation
- Killarney Neighbourhood Reconstruction
- Pleasantview Neighbourhood Reconstruction
- Three-stream Communal Collection

The following six profiles have been removed:

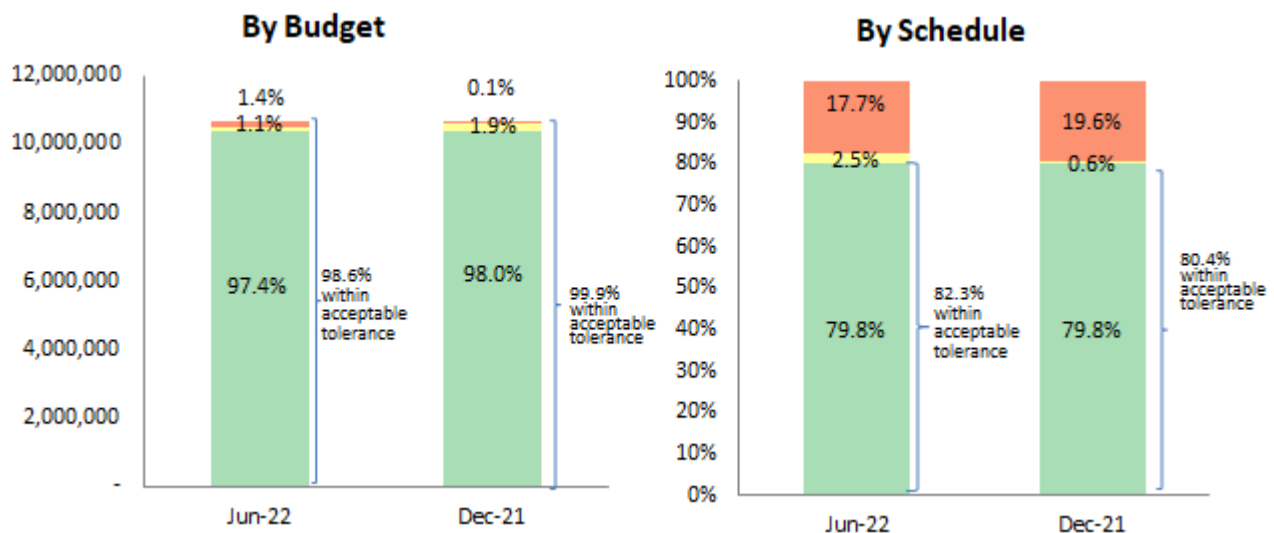
- Two profiles are now substantially complete and in service:
  - Yellowhead Trail East Widening (61 Street to North Saskatchewan River)
  - Century Place Base Building Rehab & Tenant Improvements
- Four profiles were removed as their budgets are now below the \$20 million significant capital project threshold:
  - 105 Avenue Streetscaping
  - Industrial-Commercial-Investment Land Development
  - Residential/Mixed-Use Land Development
  - Infrastructure Delivery - Growth

### **Capital Profile Performance**

Green status reflects that the capital profile is currently projected to be on time or on budget. 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, while 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. Attachment 2 provides additional details on these definitions.

The majority of capital profiles, weighted by approved budget, are within an acceptable tolerance for budget (98.6 per cent) and schedule (82.3 per cent). Projects within the green or yellow status are considered to be within an acceptable tolerance. As of June 30, 2022, of the 70 profiles reported, 69 are within the acceptable tolerance for budget, and 65 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.

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\*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 June 2022 in the budget chart (chart on the left) relates to the Yellowhead Trail - Fort Road Widening projects. The higher than estimated costs on the reconstruction of the CN Rail bridge structure, additional land purchases and an increase in the scope of work related to the new EPCOR Water utility and roadway improvements along 66 Street, between Yellowhead Trail and Fort Road.

The red status for schedule is primarily made up of Valley Line Southeast and Transit Smart Fare System.

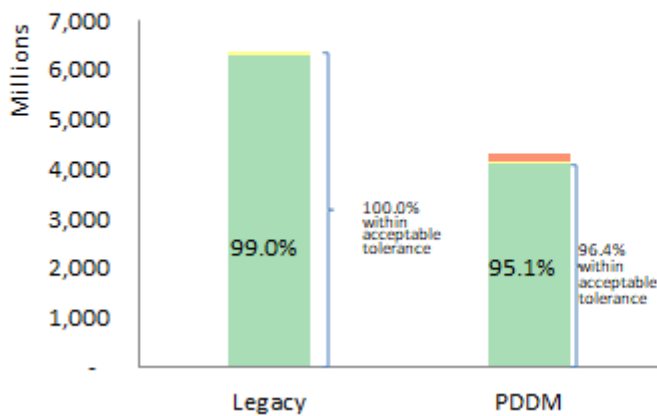
More details on significant capital projects, including those noted above, can be found in Attachment 2.

### Project Development and Delivery Model

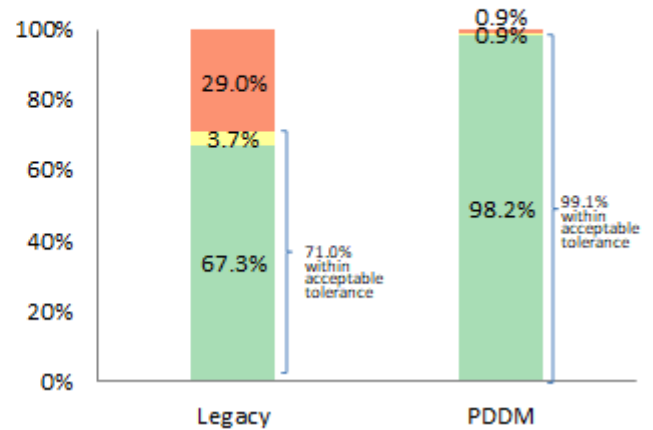
The Project Development Delivery Model (PDDM) was implemented in April 2017 as part of Council's Capital Governance Policy (C591). While a number of projects have commenced using this model, to date no significant profiles have reached completion under PDDM. Of the 50 significant standalone capital profiles in this report, 33 profiles are being delivered from their inception under PDDM. Of these, 32 are reporting within an acceptable tolerance for budget and 32 are within 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.

As of June 30, 2022, 96.4 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.

### Economic Risks

Developments in the economy are considered risks to the financial performance of capital projects when they have an implication on costs. The most pressing risk currently is the impact that supply side constraints are having on the pricing and availability of material and equipment needed for construction. These constraints are lifting construction prices in the Edmonton census metropolitan area (CMA), with the latest Statistics Canada data indicating an almost 14 per cent year-over-year increase in the non-residential building construction price index in Q1 2022. Although Q2 2022 data on Edmonton CMA building construction prices have not yet been released, it is likely that price pressures remained significant based on national price trends for product groups relevant to City of Edmonton capital projects, like fabricated metal and construction products, and machinery and equipment.

Changes in currency exchange rate expectations can also present a risk, though to varying degrees depending on the 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 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 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. In the Conference Board of Canada's (CBoC) July 2022 Financial Markets Outlook, the US-CAD exchange rate is predicted to rise from an annual average rate in 2021 of 1.25 to 1.27 in 2022, and to 1.30 in 2023.

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The pace of price growth is expected to slow as rising interest rates and high material costs dampen demand. However, even if price pressures ease, it does not mean that price levels will reverse course. Administration is working to manage price pressures within the current capital budget, and is considering rising prices and exchange rates in the development of the proposed 2023-2026 Capital Budget.

See Attachment 2 of the August 29, 2022, Financial and Corporate Services report FCS01374 - Operating Financial Update - June 30, 2022 for further economic information.

### **Debt Update**

The City is projected to finish the 2022 fiscal year using 68.5 per cent of the *Municipal Government Act* (MGA) debt limit, with \$4.2 billion of outstanding projected debt, an anticipated net increase of \$634 million from 2021. This includes projected borrowings of \$687 million tax-supported debt and \$36 million self-liquidating debt through the Government of Alberta's Treasury Board and Finance, as well as \$20 million in Public Private Partnership (P3) financing for Valley Line Southeast.

The Bank of Canada has increased its policy interest rate target four times since the start of 2022, starting in March, to address excess demand in the Canadian economy and high inflation. These rate increases are pushing provincial loan pricing rates for local authorities higher and at a relatively rapid pace. 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**

As the financial updates provide the quantitative results of capital budget projects that undertake their own efforts to gain insight from Edmontonians, additional community insight is not sought for financial update 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 specifically for financial update reports.

## **ATTACHMENTS**

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