

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2022

RECOMMENDATION

That the December 5, 2022, Financial and Corporate Services report FCS01540, be received for information.

Requested Council Action	Information only		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	N/A		
City Plan Values	N/A		
City Plan Big City Move(s)	N/A	Relationship to Council's Strategic Priorities	Conditions for service success
Corporate Business Plan	Managing the corporation		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> 2019-2022 Capital Budget C203D Debt Management Fiscal Policy 		
Related Council Discussions	<ul style="list-style-type: none"> FCS01373 Capital Financial Update - June 30, 2022, City Council, August 29, 2022 FCS01144 Spring 2022 Supplemental Capital Budget Adjustment, City Council, June 7, 2022 		

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 - SEPTEMBER 30, 2022

- This report provides the September 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 September 30, 2022, of the 68 profiles reported, 65 are within the acceptable tolerance for budget, and 61 are within the acceptable tolerance for schedule. When weighted by approved budget, the majority of capital profiles are within an acceptable tolerance for budget (99.5 per cent) and schedule (80.3 per cent).

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.

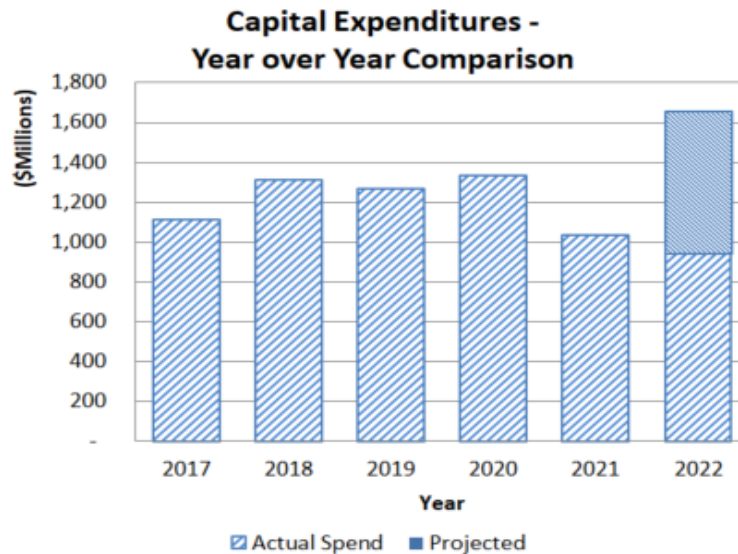
2019-2022 Capital Budget Performance Compared to Budget

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.

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2022

Expenditure Comparison



The 2022 expenditures to date are \$936.5 million and projected expenditures are \$1,651 million, which 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
- Capital Line South LRT: Century Park to Ellerslie Road
- 50 Street CPR Grade Separation
- Yellowhead Trail Freeway Conversion
- Coronation Park Sports and Recreation Centre
- Terwilligar Drive Expansion project
- Electric Bus Program

Significant expenditures are forecasted for the last three months of 2022; however it is expected that a portion of the budget will be carried forward to 2023.

Budget Cycle Spend

Budgeted expenditures for the years 2019-2022 total \$7.3 billion. As of September 30, 2022, 3.75 years into the four-year budget cycle, the City spent \$4.6 billion, or 62.9 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 64.6 per cent was spent at September 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, 68 are considered significant for reporting within the September 30, 2022, Capital Financial Update (48 standalone and 20

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2022

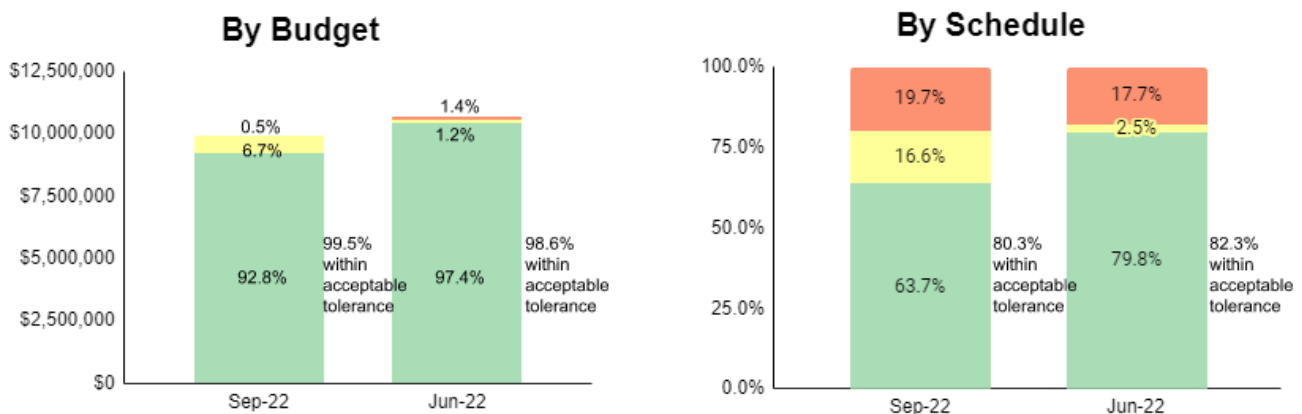
composite). These 68 profiles represent 79.7 per cent of the dollar value of the approved capital budget. The last Capital Financial Update - June 30, 2022 (presented to City Council on August 29, 2022 report FCS01373) included 70 profiles considered significant for reporting. Since that update, two profiles have been removed as they are now substantially complete:

- Parking Control and Technology: Project scope is completed awaiting final approval from the Province.
- TELUS World of Science: Project included expansion and upgrades to various areas within TELUS World of Science and now is substantially complete.

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 projected variance from budget or schedule (30 per cent for profiles in develop stage), while red status for a significant capital profile is defined as a project with a greater than 20 per cent variance from budget or schedule (30 per cent for profiles in the develop stage). Attachment 2 provides additional details on these definitions.

The majority of capital profiles, weighted by approved budget, are within an acceptable tolerance for budget (99.5 per cent) and schedule (80.3 per cent). Projects within the green or yellow status are considered to be within an acceptable tolerance. As of September 30, 2022, of the 68 profiles reported, 65 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 September 2022 in the budget chart (chart on the left) relates mostly to the Technology Infrastructure - Renewal composite.

The red status for schedule is primarily made up of Valley Line Southeast, Downtown District Energy Initiative, LED Streetlight Conversion and Transit Smart Fare System.

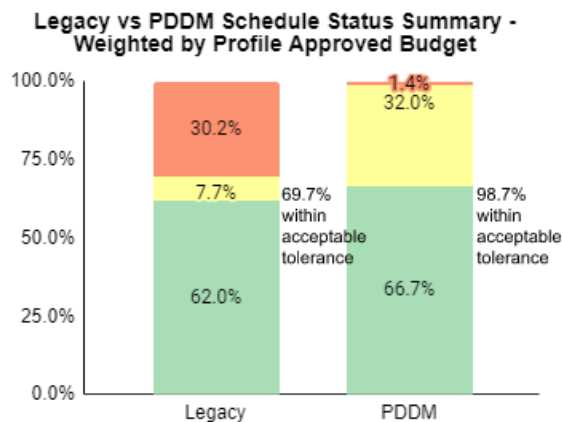
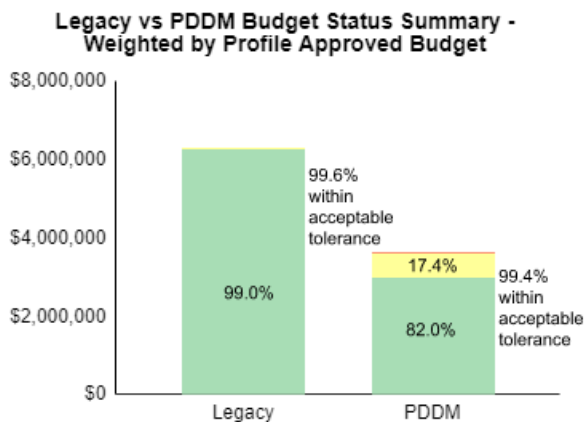
CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2022

Details on significant capital projects, including those noted above, are in Attachment 2.

Project Development and Delivery Model

The Project Development Delivery Model (PDDM) was implemented in April 2017 as part of Council Policy C591 - Capital Governance. Of the 48 significant standalone capital profiles in this report, 33 profiles are being delivered from their inception under PDDM. Of these, 33 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. 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. 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.



**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 September 30, 2022, 99.4 per cent of the approved budget for significant PDDM projects are within an acceptable tolerance for budget and 98.7 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. Price pressures from supply side constraints continue to be a risk to the financial performance of the City of Edmonton's capital projects. According to Statistics Canada, the non-residential building construction price index for the Edmonton census metropolitan area (CMA) continued to rise in Q3. In Q3 2022, the index was 12.2 per cent higher year-over-year, though growth in the index appears to be slowing down. In Q3, the index increased by 1.7 per cent on a quarter-over-quarter basis, compared to a 4.1 per cent quarter-over-quarter gain in Q2.

CAPITAL FINANCIAL UPDATE - SEPTEMBER 30, 2022

Exchange rate volatility 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 there is less risk to the financial performance of these types of projects should there be an unexpected swing in exchange rates. Projects that rely on imported components, such as plumbing, mechanical and electrical components, are at greater risk of unexpected cost pressures coming from exchange rate volatility. 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 United States Dollar (USD) to Canadian Dollar (CAD) exchange rate more relevant. In the Conference Board of Canada's (CBoC) November 2022 Financial Markets Outlook, the USD to CAD exchange rate is predicted to rise from an annual average of 1.25 in 2021 to 1.28 in 2022, and to 1.29 in 2023. There is a risk that the USD to CAD exchange rate may come in higher than 1.28 in 2022 based on the performance of the exchange rate in recent months.

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 proposed 2023-2026 Capital Budget.

See Attachment 2 of the December 5, 2022, Financial and Corporate Services report FCS01539 - Operating Financial Update - September 30, 2022 for further information in the City of Edmonton Q3 2022 Economic Update.

Debt Update

The City's new Policy - C203D Debt Management Fiscal was approved by City Council on November 14, 2022. The new policy supersedes limits that specified in the *Municipal Government Act* (MGA) and the *Debt Limit Regulation* based on increased authority provided to the City through the *City of Edmonton Charter, 2018 Regulation*. The City is no longer subject to the limits as set out in the MGA.

The new limits restricted tax-supported debt servicing to 18 per cent of tax-supported net operating expenditures. Tax-supported debt servicing can exceed the 18 per cent limit:

- in order to provide City match funding required to leverage external funds, where the external amounts fund at minimum one-third of total project costs,
- where the debt is self-supporting tax guaranteed debt, or
- where the tax-supported debt is required for emergency purposes.

Total debt servicing is allowed up to 21 per cent of City revenues. Debt servicing is permitted up to 26 per cent of City revenues, but only for emergency purposes as defined in Policy C203D.

Attachment 3 provides outstanding debt and debt servicing projections based on currently approved capital projects in comparison to the City's debt servicing limits set in Policy C203D. Debt servicing projections do not include debt financing for capital projects proposed in the 2023-2026 Capital Budget.

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 September 30, 2022
3. Debt Update - September 30, 2022