

## CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2022

### RECOMMENDATION

That the March 14, 2023, Financial and Corporate Services report FCS01696, 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 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>• C203D Debt Management Fiscal Policy</li> </ul>		
<b>Related Council Discussions</b>	<ul style="list-style-type: none"> <li>• FCS01373 Capital Financial Update - June 20, 2022, City Council, August 29, 2022</li> <li>• FCS01656 Capital Financial Update - September 30, 2022, City Council, December 5, 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 - DECEMBER 31, 2022**

- This report provides the December 31, 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 December 31, 2022, of the 64 capital profiles reported, 62 are within the acceptable tolerance for budget, and 57 are within the acceptable tolerance for schedule. When weighted by approved budget, the majority of capital profiles are within an acceptable tolerance for budget (99.8 per cent) and schedule (80.5 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. This is the final capital financial update for the 2019-2022 Capital Budget cycle.

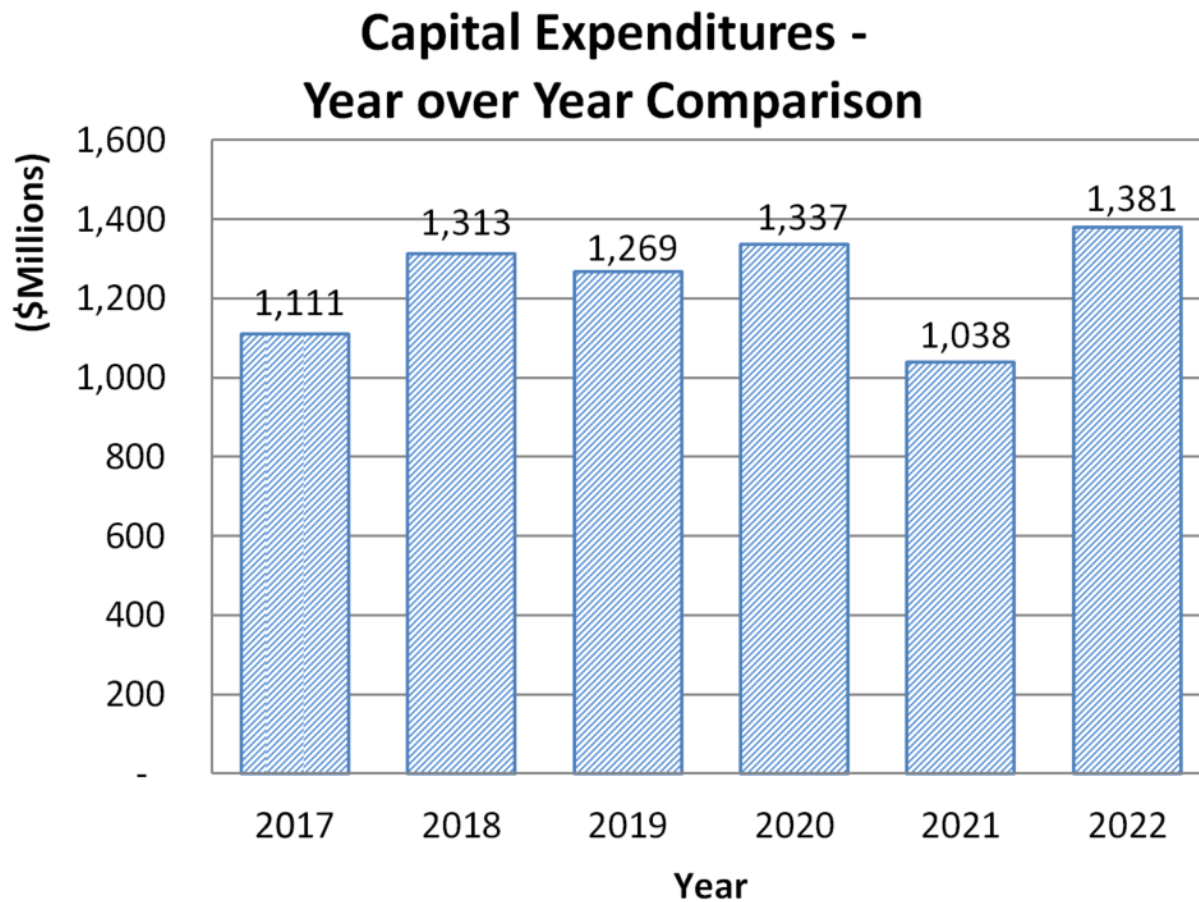
### **2019-2022 Capital Budget Performance Compared to Budget**

The total approved 2019-2022 Capital Budget is \$12.1 billion, which includes budgeted expenditures for the years 2019-2022 of \$7.3 billion (inclusive of \$1.3 billion of carryforwards from the 2015-2018 Capital Budget) and \$4.8 billion in approved capital expenditures for projects with completion dates beyond 2022.

The 2019-2022 Capital Budget is composed of 403 active profiles (281 standalone profiles and 122 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.

In December 2022, City Council approved \$3.27 billion for the 2023-2026 budget cycle. This report reflects the last reporting on the 2019-2022 budget cycle, and therefore does not include the impact of the 2023-2026 Capital Budget approvals, with the exception of the three significant standalones in Attachment 2 that were already being reported on as significant. These three standalone profiles (Terwillegar Drive Expressway, New Transit Bus Garage and Valley Zoo - Nature's Wild Backyard Phase II) had adjustments to their budgets as part of the 2023-2026 Capital Budget. Composite profiles in Attachment 2 are reporting on their 2019-2022 budget, and will be closed out this cycle as part of the year-end carry forward process. Many of these same composites have budgets as part of the 2023-2026 budget cycle and will be reported in the Q2 2023 financial update.

Expenditure Comparison



The 2022 preliminary capital expenditures are \$1.38 billion. This is the largest capital spend in the last six years, and significantly higher than 2021 capital expenditures. There was significant construction activity for major city-building projects in 2022 including:

- Valley Line West LRT
- Valley Line Southeast LRT finalizations
- Capital Line South LRT: Century Park to Ellerslie Road
- 50 Street CPR Grade Separation
- Yellowhead Trail Freeway Conversion
- Coronation Park Sports and Recreation Centre
- Terwillegar Drive Expansion project
- Electric Bus Program

At the end of the 2019-2022 cycle, \$2.23 billion of the 2019-2022 budget has been left unspent. A portion of this will be carried forward to the 2023-2026 budget cycle through the formal carryforward process.

#### Budget Cycle Spend

Budgeted capital expenditures for the four year 2019-2022 capital budget total \$7.27 billion. As of December 31, 2022, the end of the 2019-2022 budget cycle, the City spent \$5.0 billion, or 69.3 per

## **CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2022**

cent, of the budgeted capital expenditures in the four-year period. The remaining budget of \$2.23 billion will be considered as a part of the year-end capital budget carryforward process, with recommendations for carryforward of budgets into the 2023-2026 budget, and release of funds, brought forward for Council's consideration through the upcoming Spring 2023 Supplemental Capital Budget Adjustment in June 2023.

For comparison, planned expenditures for the previous four-year budget cycle, from 2015-2018, totalled \$6.0 billion, of which 72.6 per cent was spent at December 31, 2018, with \$1.3 billion being carried forward into the 2019-2022 capital budget cycle.

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 403 active profiles within the 2019-2022 Capital Budget, 64 are considered significant for reporting within the December 31, 2022, Capital Financial Update (44 standalone and 20 composite). These 64 profiles represent 79.7 per cent of the dollar value of the approved capital budget. The last Capital Financial Update - September 30, 2022 (December 5, 2022, Financial and Corporate Services report FCS01540) included 68 profiles considered significant for reporting, which represented 79.7 per cent of the dollar value of the approved capital budget. Since that update, three profiles have been removed as they are now substantially complete and one profile has been cancelled:

- Edmonton Soccer Association South Soccer Centre Expansion: Project scope is completed and the facility is in service.
- Jasper Avenue New Vision Phase 2: Construction is complete and in service.
- Electric Buses - ZEB Program: All units are in service.
- Valley Zoo - Nature's Wild Backyard Phase II: Project was cancelled during the 2023-2026 Budget deliberations, with some of the funding and scope placed in composite profile CM-12-0300 - Valley Zoo Animal Enclosure Renewal and Enhancement to complete the required renewal.

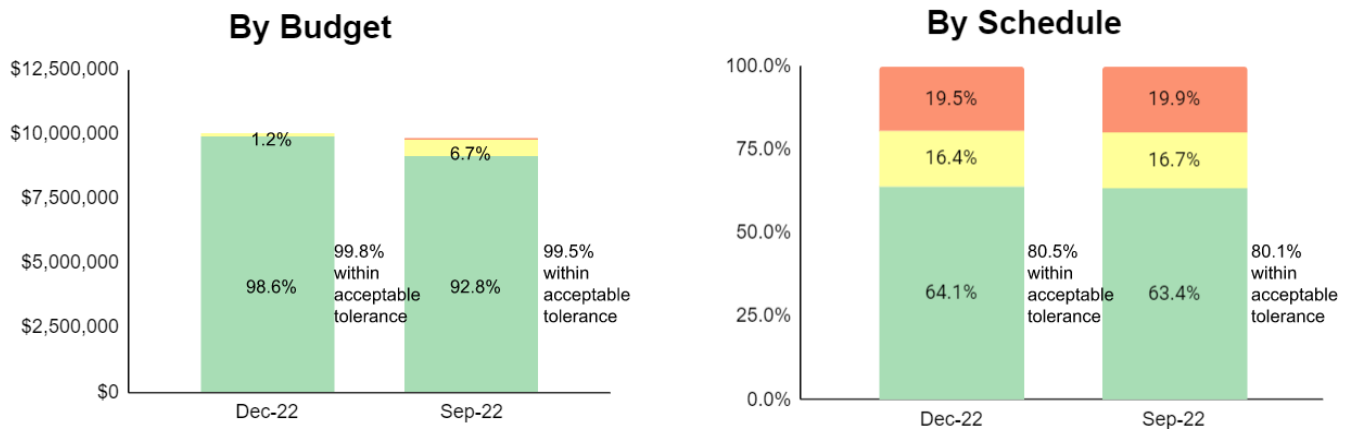
### **Capital Profile Performance**

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 (99.8 per cent) and schedule (80.5 per cent). Projects within the green or yellow status are considered to be within an acceptable tolerance. As of December 31, 2022, of the 64 profiles reported, 62 are within the acceptable tolerance for budget and 57 are within the acceptable tolerance for schedule. The following charts present the budget and schedule status of significant

## CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2022

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 2022 in the budget chart relates to the Technology Infrastructure - Renewal composite. Although the Technology Infrastructure - Renewal Composite has a red status, the overall OCT portfolio is within budget as further explained in Attachment 2.

The red status in the schedule chart is primarily made up of Valley Line Southeast, Downtown District Energy Initiative, Enterprise Systems Transformation Program, LED Streetlight Conversion and Transit Smart Fare System.

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

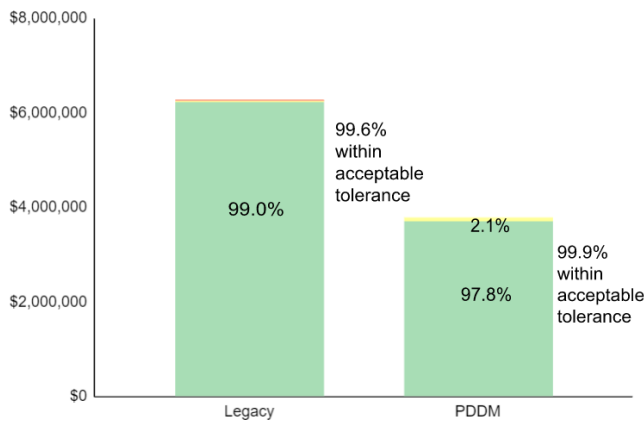
### Project Development and Delivery Model

The Project Development Delivery Model (PDDM) was implemented in April 2017 as part of Council Policy C591 - Capital Governance. Of the 44 significant standalone capital profiles in this report, 30 profiles are being delivered from their inception under PDDM. Of these, all are reporting within an acceptable tolerance for budget and 29 are within acceptable tolerance for schedule.

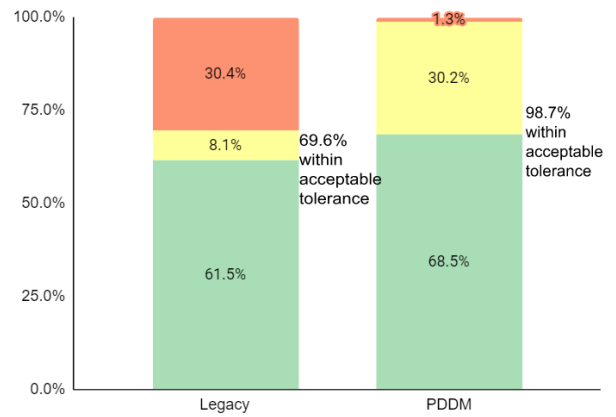
The charts below compare current projected performance of the significant legacy profiles to the significant PDDM profiles. As the legacy projects are completed and removed from the list of active projects, more of the projects reported will be those delivered under the PDDM. Results show improved schedule 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.

## CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2022

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



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 December 31, 2022, 99.9 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. According to Statistics Canada price indexes, building construction inflation in the Edmonton census metropolitan area (CMA) for select residential and non-residential structures decelerated in Q4. Year-over-year growth in the price index for residential structures slowed from almost 20 per cent in Q3 to 16 per cent in Q4 2022. For non-residential structures, the price index increased almost 10 per cent year-over-year in Q4, which was a modest improvement from 12.3 per cent in Q3. Price pressures from supply side constraints remain a risk to the financial performance of the City's capital projects, especially with building construction inflation still at elevated levels. However, pressures from supply chain disruptions appear to be easing, which is likely helping to bring building construction inflation in the Edmonton CMA lower.

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 imports, 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. According to the Bank of Canada, the USD to CAD exchange rate averaged 1.36 in Q4 and 1.30 in 2022. Based on the most recent exchange rate forecasts from Canada's chartered banks, most expect the Canadian dollar to strengthen relative to the US dollar



## **CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2022**

over the course of 2023 and for the exchange rate to settle around the 1.30 range by the end of the year.

Even with price pressures easing, it does not mean that price levels will reverse course.

Administration is working to manage price pressures and higher prices within the current capital budget, while also considering exchange rate fluctuations.

See Attachment 3 of the March 14, 2023 – Financial and Corporate Services report FCS01656 - Operating Financial Update - December 31, 2022 for further information in the City of Edmonton Q4 2022 Economic Update.

### **Debt Update**

C203D: Debt Management Fiscal Policy was approved by City Council on November 14, 2022.

Under the new policy, tax-supported debt servicing is limited to 18 per cent of tax-supported net operating expenditures. Tax-supported debt servicing can exceed the 18 per cent limit for the following reasons:

- 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.

As part of the 2023-2026 Capital Budget, City Council approved \$1.3 billion in additional tax-supported debt projects, including funding for a new transit bus garage, High Level Bridge rehabilitation, LRV replacements, William Hawrelak Park rehabilitation and active transportation.

The current approved debt is forecasting the City to exceed the 18 per cent limit in 2027 and 2028, and when including estimates for matching funding required to take advantage of federal and provincial grant funding, the City is likely to remain above the 18 per cent limit into the 2030s.

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.

## **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 December 31, 2022
3. Debt Update - December 31, 2022