

CAPITAL FINANCIAL UPDATE - DECEMBER 31, 2023

Recommendation

That the March 12, 2024, Financial and Corporate Services report FCS02228, be received for information.

Requested 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"> 2023-2026 Capital Budget C203D Debt Management Fiscal Policy 		
Related Council Discussions	<ul style="list-style-type: none"> FCS02229 - Operating Financial Update - December 31, 2023 		

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, 2023, capital financial update, including updates on significant capital projects, results and projections against the approved 2023-2026 Capital Budget, and the City's forecasted debt and debt servicing.

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- As of December 31, 2023, of the 93 profiles reported, 91 are within the acceptable tolerance for budget, and 84 are within the acceptable tolerance for schedule. When weighted by approved budget, the majority of capital profiles are within an acceptable tolerance for budget (99.6 per cent) and schedule (82.4 per cent).

REPORT

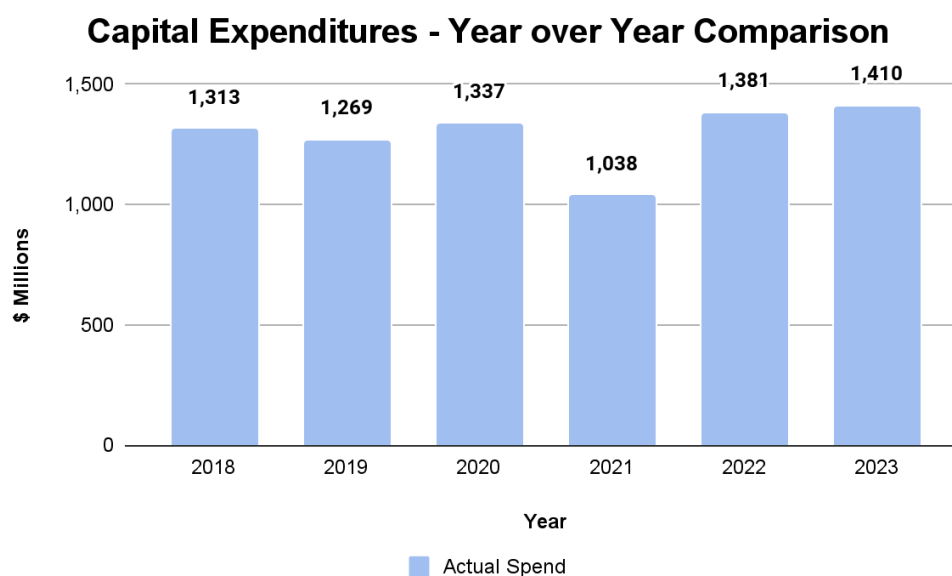
The Capital Financial Update focuses on reporting financial performance of significant capital profiles against the approved 2023-2026 Capital Budget and the status of projects against scheduled completion dates. Significant projects are defined as capital profiles that have expenditures of at least \$20 million within the 2023-2026 Capital Budget cycle or profiles that are highly strategic, complex, include many stakeholders, have major constraints and/or include a high level of risk.

2023-2026 Capital Budget Performance Compared to Budget

The total approved 2023-2026 Capital Budget is \$10.4 billion, which includes \$2.0 billion carry forward from the 2019-2022 Capital Budget and \$1.1 billion in approved capital expenditures for projects with completion dates beyond 2026. Budgeted expenditures for 2023-2026 total \$9.3 billion.

The 2023-2026 Capital Budget has 310 active profiles (201 standalone profiles and 109 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.

Annual Expenditure Comparison



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The preliminary 2023 capital expenditures are \$1,410.0 million, which is higher than previous years. 2023 expenditures are higher than previous years as major city-building projects progress further into construction, such as Valley Line West, Yellowhead Trail Freeway Conversion, Coronation Park Sports and Recreation Centre, Capital Line South, Metro Line (NAIT - Blatchford) Extension, Terwillegar Drive Expressway Upgrades and William Hawrelak Park Rehabilitation. The overall spend is still being assessed, with approximately \$1,547.9 million unspent, and annual budgets will be carried forward into future years through the formal carry forward process.

Budget Cycle Spend

Budgeted expenditures for 2023-2026 total \$9.3 billion. As of December 31, 2023, one year into the four-year budget cycle, the City spent \$1,410.0 million, or 15.1 per cent, of the budgeted capital expenditures in the four-year period. For comparison, planned expenditures for the previous four-year budget cycle from 2019-2022 totalled \$7.3 billion, of which \$1,271.4 million, or 17.5 per cent, was spent at December 31, 2019.

Attachment 1 provides the budgeted capital expenditures within and beyond the 2023-2026 period for tax-supported, enterprise and utility operations, as well as the allocation of the capital budget by department.

Capital Project Reporting

Of the 310 active profiles within the 2023-2026 Capital Budget, 93 are considered significant for reporting within the December 31, 2023, Capital Financial Update (55 standalone and 38 composite). These 93 profiles represent 90.0 per cent of the dollar value of the approved capital budget. The previous capital reporting (FCS02112, Capital Financial Update - September 30, 2023, City Council, September 12, 2023) included 85 profiles considered significant for reporting, which represented 90.8 per cent of the dollar value of the approved capital budget. Since that update, 9 profiles have been added and one profile has been removed due to a reduction in budget:

The following profiles are added:

- Kennedale Snow Storage Site Upgrades: Newly approved
- Holyrood Supportive Housing: Newly approved
- Boyle Street Neighbourhood Reconstruction: Newly approved
- Gariepy Neighbourhood and Alley Reconstruction: Newly approved
- Hairsine Neighbourhood and Alley Reconstruction: Newly approved
- Meyokumin Neighbourhood and Alley Reconstruction: Newly approved
- 132 Avenue: Fort Road to 97 Street Reconstruction: Newly approved
- Beaver Hills House/Michael Phair Parks Upgrades: Newly approved
- Blatchford Renewable Energy Utility Delivery - Growth: Newly approved

The following profile was removed:

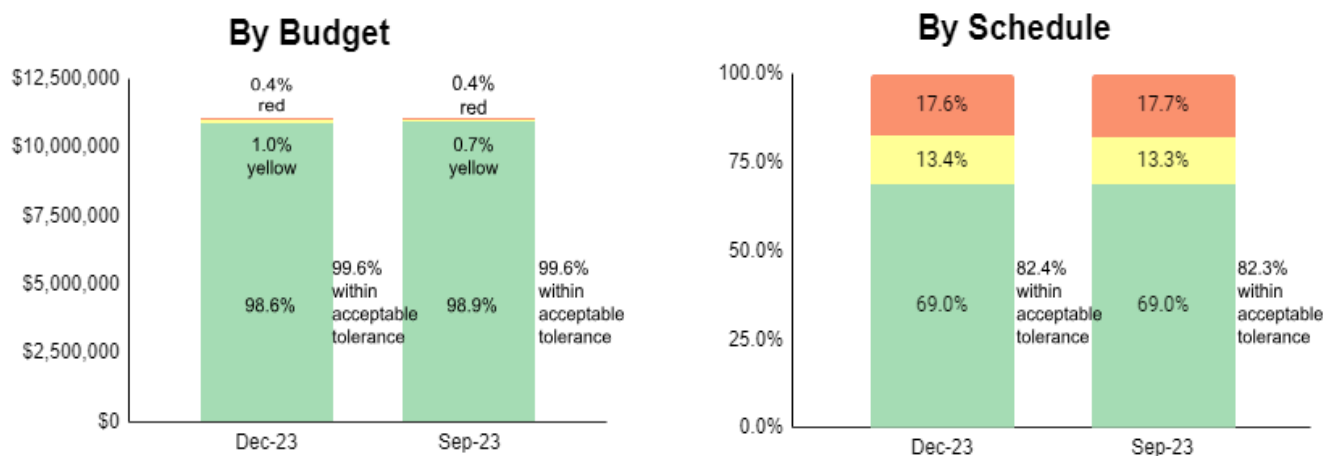
- Three-stream Communal Collection: Budget reduced below \$20 million

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Capital Profile Performance

Green status indicates 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 (99.6 per cent) and schedule (82.4 per cent). Projects within the green or yellow status are considered to be within an acceptable tolerance. As of December 31, 2023, of the 93 profiles reported, 91 are within the acceptable tolerance for budget, and 84 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 schedule is primarily made up of Valley Line Southeast, Iron Works Building Rehabilitation, Transit Smart Fare System (Smart Card) and the Enterprise Systems Transformation Program (Enterprise Commons). The red status for budget is primarily made up of Heritage Valley Land Development.

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

Economic Risks

Developments in the economy are considered risks to the financial performance of capital projects when they have an implication on costs. The economy is still adjusting to the current price environment, which experienced significant increases from a prolonged period of elevated inflation. Statistics Canada reported that annualized non-residential building construction price inflation in the Edmonton census metropolitan area (CMA) decelerated to 3.6 per cent in Q4 2023 from 3.9 per cent in Q3. Non-residential building construction price inflation opened 2023 at 8.1

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per cent in Q1 2023, but decelerated in subsequent quarters, which helped to bring the annual average to 5.0 per cent in 2023, compared to 12.4 per cent in 2022.

Exchange rate volatility is another factor that could induce cost variance, though to varying degrees and 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. In the Conference Board of Canada's most recent national outlook, the USD to CAD exchange rate is forecast to average 1.37 in 2024, which would be an uptick from 1.35 in 2023.

See Attachment 2 of the March 12, 2024, Financial and Corporate Services report FCS02229 - Operating Financial Update - December 31, 2023 for further information on developments in key economic variables for Edmonton and the CMA in Q4 2023 and 2023 as a whole.

Debt Update

The City's Policy - C203D Debt Management Fiscal Policy was approved by City Council on November 14, 2022. Under the 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 matching City 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.

The City is projected to finish the 2023 fiscal year with \$4.1 billion of outstanding debt. This includes total borrowings of \$405 million of tax supported debt and \$12 million of self-liquidated debt through the Government of Alberta's Treasury Board and Finance throughout the year. With respect to debt servicing limits, the City is anticipated to use 81.2 per cent of its tax-supported debt servicing limit and 51.7 per cent of its total debt servicing limit by the end of 2023.

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

The City of Edmonton's budgets are the instruments that allow Council to achieve the goals of ConnectEdmonton and the Big City Moves of The City Plan, and were informed by extensive public engagement. Through various channels (including formal public engagement, community conversations/tables, 311, social media and speakers at Committees of Council), the City of

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Edmonton listens to the needs, desires and financial realities of Edmontonians as it delivers capital projects on behalf of the community. Administration is committed to providing financial reporting back to Council and residents that demonstrates how the City has delivered on the goals and objectives set out in the budget.

GBA+

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

Attachments

1. Capital Results - 2023 to 2026
2. Significant Capital Project Update as of December 31, 2023
3. Debt Update - December 31, 2023