

## CAPITAL FINANCIAL UPDATE - JUNE 30, 2024

### Recommendation

That the September 10, 2024, Financial and Corporate Services report FCS02486, be received for information.

<b>Requested 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>2023-2026 Capital Budget</li> <li>C203D Debt Management Fiscal Policy</li> </ul>		
<b>Related Council Discussions</b>	<ul style="list-style-type: none"> <li>FCS02362 Spring 2024 Supplemental Capital Budget Adjustment, June 11, 2024</li> <li>FCS02530, Fall 2024 Supplemental Capital Budget Adjustment, November 13, 2024</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 how Administration manages the corporation responsibly for the community.
- This report provides the June 30, 2024, 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 June 30, 2024, of the 88 profiles reported, 87 are within the acceptable tolerance for budget and 82 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 (98.1 per cent).

## REPORT

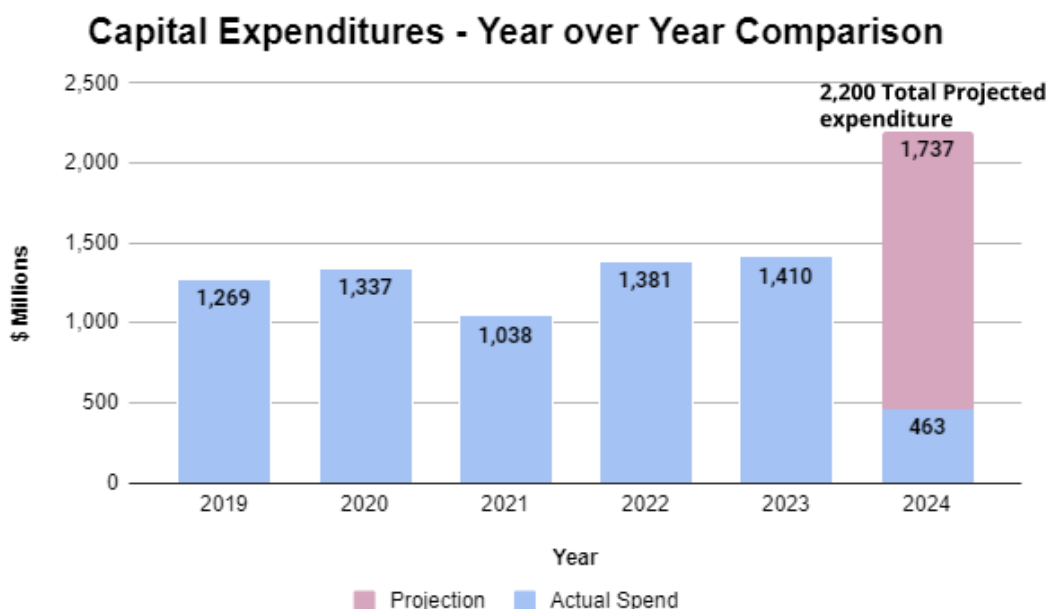
The Capital Financial Update focuses on reporting financial performance of significant capital profiles against the approved 2023-2026 Capital Budget and the status of projects against scheduled completion dates. Significant projects are defined as capital profiles that have expenditures of at least \$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 \$10.8 billion, which includes \$2.0 billion carry forward from the 2019-2022 Capital Budget and \$1.3 billion in approved capital expenditures for projects with completion dates beyond 2026. Budgeted expenditures for 2023-2026 total \$9.5 billion.

The 2023-2026 Capital Budget has 267 active profiles (158 standalone profiles and 109 composite profiles). Composite profiles include funding for multiple projects that are similar. For example, Neighbourhood Renewal Program (NRP) 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 2024 expenditures to date are \$462.6 million, and projected expenditures for the year are \$2,200.2 million, which is higher than previous years. It is anticipated 2024 expenditures will be higher than previous years as major city-building projects progress further into construction, such as: Lewis Farms Community Recreation Centre and Library; Valley Line West LRT: Downtown to Lewis Farms; Capital Line South LRT: Century Park to Ellerslie Road; and Yellowhead Trail Freeway Conversion.

### Budget Cycle Spend

Budgeted expenditures for 2023-2026 total \$9.5 billion. As of June 30, 2024, 1.5 years into the four-year budget cycle, the City spent \$1,872.7 million, or 19.8 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 \$1,762.1 million, or 24.2 per cent, was spent at June 30, 2020.

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 267 active profiles within the 2023-2026 Capital Budget, 88 are considered significant for reporting within the June 30, 2024, Capital Financial Update (49 standalone and 39 composite). These 88 profiles represent 88.6 per cent of the dollar value of the approved capital budget. The previous capital reporting (March 12, 2024 Financial and Corporate Services report FCS02228, Capital Financial Update - December 31, 2023) included 93 profiles considered significant for reporting, which represented 90.0 per cent of the dollar value of the approved capital budget. Since that update, four profiles have been added and nine profiles have been removed:

The following profiles are added:

- Canora Supportive Housing: Newly approved
- Dawson Bridge Rehabilitation: Newly approved
- Housing Accelerator Fund Initiatives and Related Projects: Newly approved
- Transportation - Minor Renewal Program: Increased budget over \$20 million threshold

The following profiles were removed:

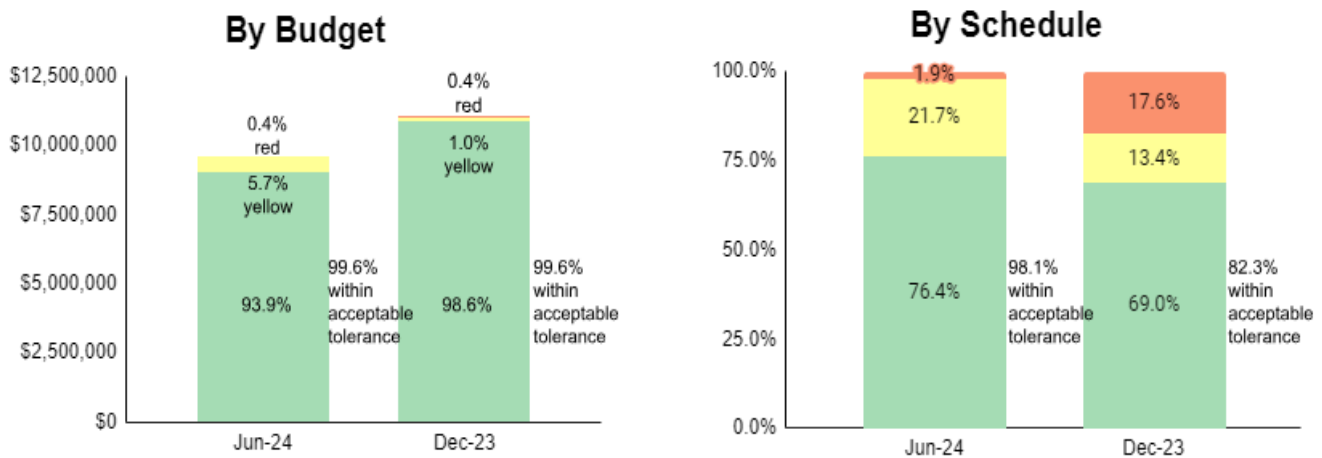
- NRP Recon - Calder: Substantially complete
- NRP Recon - Garneau: Substantially complete
- NRP Recon - Malmo Plains: Substantially complete
- NRP/NARP Recon - Beaumaris Neighbourhood and Alleys: Substantially complete
- Killarney Neighbourhood Reconstruction: Substantially complete
- 124 Street-109 Avenue to 118 Avenue: Substantially complete
- Valley Line Southeast LRT: Substantially complete
- Facility: Safety and Security - Renewal: Budget reduced below \$20 million threshold
- Beaver Hills House/Michael Phair Parks Upgrades: Budget is below threshold of \$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 (98.1 per cent). Projects within the green or yellow status are considered to be within an acceptable tolerance. As of June 30, 2024, of the 88 profiles reported, 87 are within the acceptable tolerance for budget, and 82 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 budget is primarily made up of Heritage Valley Land Development. The red status for schedule is primarily made up of Iron Works Building Rehabilitation, Transit Smart Fare System (Smart Card) and the Enterprise Systems Transformation Program (Enterprise Commons).

Details on significant capital projects, including those noted above, are in Attachment 2<sup>1</sup>.

### 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 much higher prices from prolonged periods of elevated inflation in recent years. Throughout 2023, inflationary pressures on Edmonton census metropolitan area (CMA) building construction prices eased for both residential and non-residential structures. However, since the start of 2024, it appears as though building construction price inflation has picked up, according to Statistics Canada's quarterly composite Building Construction Price Index (BCPI) for the Edmonton CMA. In Q2 2024,

<sup>1</sup> Additional project information is available at [building.edmonton.ca/projects](https://building.edmonton.ca/projects)

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annualized BCPI inflation for residential structures was 3.2 per cent compared to 0.8 per cent in Q1 and -1.1 per cent in Q4 2023. For non-residential structures, BCPI inflation in Q2 was 5.0 per cent, compared to 4.7 per cent in Q1 and 3.6 per cent in Q4 2023.<sup>2</sup>

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 increases the City's risk exposure to volatility in the United States Dollar (USD) to Canadian Dollar (CAD) exchange rate. According to the Bank of Canada, the USD-CAD exchange rate in 2023 averaged 1.35. Over the first half of 2024, the USD-CAD exchange rate averaged 1.36.<sup>3</sup> In the Conference Board of Canada's June 2024 national outlook, the USD-CAD exchange rate is forecast to average 1.37 in 2024. The USD to CAD exchange rate over the 2024-28 period is forecast to average 1.34.

See Attachment 2 of the September 10, 2024, Financial and Corporate Services report FCS02485 - Operating Financial Update - June 30, 2024 for further information on developments in key economic variables for Edmonton and the CMA in Q2 2024.

### Debt Update

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 2024 fiscal year with \$4.3 billion of outstanding debt. This includes total borrowings of \$461 million of tax supported debt and \$27 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 68.1 per cent of its tax-supported debt servicing limit and 53.9 per cent of its total debt servicing limit by the end of 2024.

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.

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<sup>2</sup> Statistics Canada. [Table 18-10-0276-01 Building construction price indexes, by type of building and division.](#)

<sup>3</sup> Bank of Canada. [www.bankofcanada.ca/rates/](http://www.bankofcanada.ca/rates/)

## **CAPITAL FINANCIAL UPDATE - JUNE 30, 2024**

### **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 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 as of June 30, 2024
2. Significant Capital Project Update as of June 30, 2024
3. Debt Update - June 30, 2024