

Capital Financial Update - December 31, 2019

Recommendation

That the March 9, 2020, Financial and Corporate Services report CR_7891, be received for information.

Executive Summary

The City of Edmonton has an obligation to measure and transparently report actual results against the City's budget to Edmontonians and City Council. Administration meets this obligation through the Capital Financial Updates, provided three times a year. Consistent and timely financial reporting to Council is part of managing the corporation for the community.

This report presents the December 31, 2019, preliminary financial results for capital and provides updates on significant capital projects including results and projections against the approved 2019-2022 Capital Budget. An update on the City's forecasted debt and debt servicing is also included.

Report

The Capital Financial Update focuses on the approved 2019-2022 Capital Budget and reports the status of significant capital profiles against budget and budgeted completion date. Significant projects are defined as capital profiles that have expenditures greater than or equal to \$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. For the period ended December 31, 2019, 75 profiles met this definition and are considered significant projects. These 75 profiles account for 88.0 percent of the total approved Capital Budget.

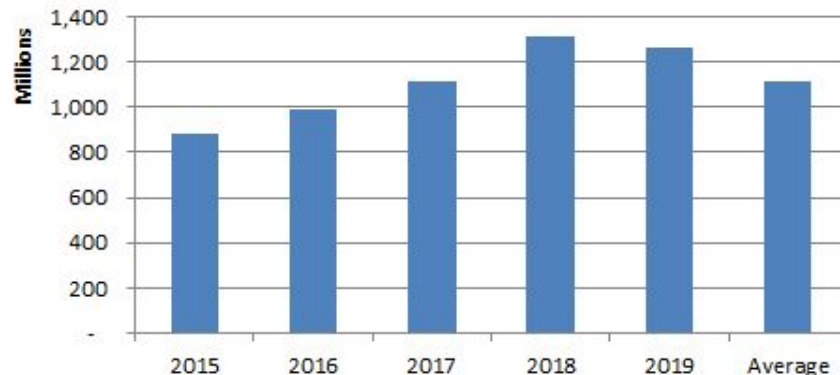
2019-2022 Capital Budget Performance against Planned Performance

The total approved 2019-2022 Capital Budget is \$9,664.7 million, which includes carry forwards from the 2015-2018 Capital Budget and approved capital expenditures beyond 2022.

The 2019-2022 Capital Budget is comprised of 345 active profiles (220 standalone profiles and 135 composite profiles). Composite profiles include funding for multiple projects that are similar in nature; for example, neighbourhood renewal program funding is held in a composite profile. Once project budgets for growth projects reach

\$2 million and renewal projects reach \$5 million the projects are removed from the composite and individual profiles are established.

December 2019 Actual Spend Year over Year Comparison



Planned expenditures for 2019-2022 total \$7,270.1 million. As of December 31, 2019, the City spent \$1,271.4 million, or 17.5 percent of the budgeted capital expenditures in the four year cycle. For comparison, planned expenditures for 2015-2018 totalled \$5,954.0 million, 14.8 percent of which was spent in the first year.

Attachment 1 provides the planned capital expenditures within and beyond that 2019-2022 period for tax-supported, enterprise and utility operations and the allocation of the Capital Budget by department.

Capital Project Reporting

The December 31, 2019 Capital Financial Update reports on 75 (41 standalone and 34 composites) of the 345 active profiles as they met the definition of a significant capital project. Since the last report, five new profiles have been included:

- Edmonton Convention Centre Underground Structure Renewal
- Imagine Jasper 109-114 St - Phase I
- 105 Avenue Streetscape (109-116 Street)
- Terwillegar Drive Expressway Upgrades - Alternate Staging
- Jasper Avenue New Vision Phase 2

Profiles for Aurum Road, Jasper Place Leisure and seven Neighbourhood Renewal Programs are complete, and have been removed since the Q3 2019 report.

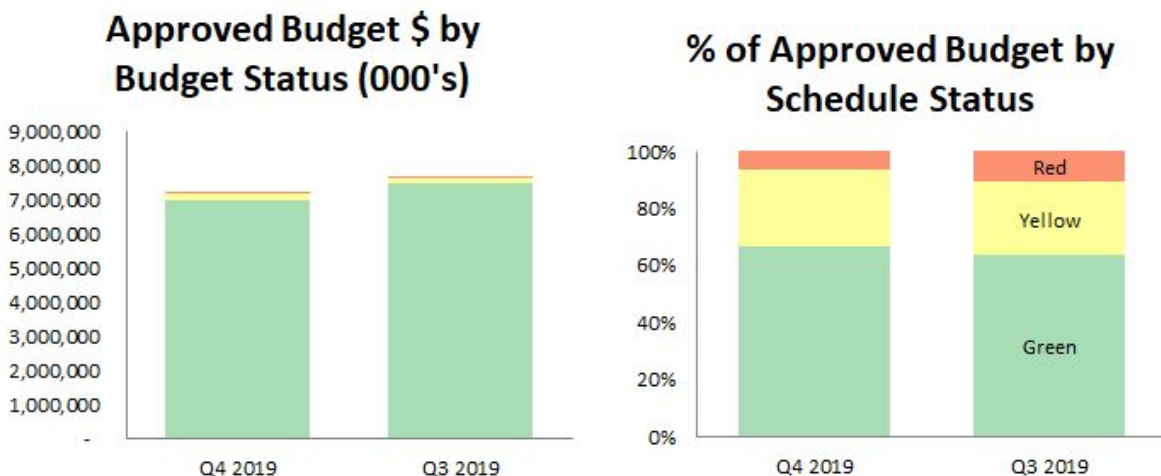
Seven more profiles have been removed as budget was either deferred or transferred to another profile

- Terwillegar Drive Expressway Upgrades Stage 1
- Alberta Community Transit fund (ACTF) - Infrastructure Delivery
- ACTF - Infrastructure Planning and Design
- Electric Buses - ACT Funded
- Terwillegar Drive Expressway Upgrades Stage 2
- Initial Phase Jasper Avenue New Vision
- Co-Located Dispatch and Emergency Operations Centre

Standalone Capital Profile Performance

Of the 220 active standalone profiles within the 2019-2022 Capital Budget, 41 are considered “significant” for the December 31, 2019 Capital Financial Update. These 41 standalone profiles cover 89.4 percent of the active approved budget for standalone profiles.

The following charts represent the budget and schedule status of significant standalone capital profiles weighted by 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, as noted in the right chart.*

As at December 31, 2019, the majority of standalone capital profiles, weighted by approved budget, are within an acceptable tolerance (profiles with a green or yellow status) for budget (99.8 percent) and schedule (93.6 percent).

Further information about all significant standalone capital profiles is provided in Attachment 2.

Composite Capital Profile Performance

There are 125 composite profiles active in the 2019-2022 Capital Budget, of which 34 are considered significant and reported in the December 31, 2019 Capital Financial Update. Some of the spending in 2019 is being captured in 2015-2018 composite profiles in projects that were underway prior to 2019. These projects will be funded with 2019-2022 composite profile funding during Supplementary Capital Budget Adjustments. A large portion of the approved composite profiles are projected to be within an acceptable tolerance (defined as composite profiles with green or yellow status) for budget (96.9 percent) and schedule (96.5 percent), weighted by approved budget.

Attachment 2 provides details about the purpose and status of each of the significant 2019-2022 composite profiles.

Renewal

Early in the 2019-2022 capital budget cycle, the City has focused on completing renewal projects that were carried forward from the approved 2015-2018 capital budget cycle. The City spent a total of \$40.7 million in funding from the 2019-2022 Capital Budget renewal program allocation completing capital profiles from the previous cycle. Administration completed the majority of these projects by the end of 2019.

See Attachment 2 for performance updates to other significant renewal composite profiles.

Growth

While the majority of composite profiles are related to renewal work, there are a few significant growth composite profiles that hold funding for future standalone growth profiles. When a project within the composite achieves the appropriate level of design (Checkpoint 3), it will be transferred to a standalone project if it meets standalone criteria (\$2 million for growth projects). An example of this is the Yellowhead Trail Freeway Conversion profiles. The Yellowhead Trail Freeway Conversion: Project Development composite profile will cover the preliminary design portion of the projects. At Checkpoint 3, standalone projects will be created using funding from the Yellowhead Trail Freeway Conversion: Project Delivery composite.

Attachment 2 also provides further performance details on all significant growth composite profiles.

Project Development and Delivery Model

The Project Development Delivery Model (PDDM) was recently implemented and no profiles have yet been completed under the new approach. Of the 41 significant standalone capital profiles in this report, 15 profiles are being delivered under PDDM. Of these 15, all are reporting within an acceptable tolerance (composite profiles with green or yellow status) for budget and 12 are within acceptable tolerance for schedule.

The majority of composite profiles are new in the 2019-2022 Capital Budget, and as a result 68.3 percent of approved budget for significant composite profiles is being delivered under the PDDM. PDDM projects within composites are in early stages and 95.9 percent of the projects, weighted by approved budget, are projected to be within an acceptable tolerance for budget, and 97.2 percent for schedule.

Exchange Rate Risk

This section provides an update on exchange rate risk related to capital. The Conference Board of Canada (CBoC) expects the Canadian dollar to see marginal improvements against its US counterpart in the next few years, ranging from 1.32 to 1.28 over the next four years. The Canadian dollar will be supported by increases to the Bank of Canada's overnight rate target as the national economy strengthens, and by a gradual increase in oil prices over the next few years.

Exchange rates affect project financial performance in different ways. There is minimal risk to many road and open space projects where the labour, equipment, and materials (e.g., asphalt, concrete, etc.) are primarily sourced locally. Alternatively, building projects where sources for equipment and materials not found locally (e.g., plumbing, mechanical, electrical, etc.) can experience moderate risk of cost pressures. Fleet and IT projects also have moderate to high risk, with financial performance linked directly to fluctuating exchange rates. As part of the budget process, estimates are based on current and projected trends related to exchange rates within the four-year budget timeframe.

See Attachment 3 of CR_7976 - Operating Financial Update - December 31, 2019 for further economic information.

Debt Update

The City is projecting to finish 2019 using 58.1 percent of the *Municipal Government Act* (MGA) debt limit with \$3.24 billion of outstanding debt, which is an increase of \$198 million from 2018. This includes 2019 borrowings of \$158.1 million tax supported and \$31.7 million self-liquidating through the Alberta Capital Finance Authority (ACFA), and \$114.0 million in P3 financing for Valley Line Southeast.

The City's borrowing rates have decreased over the past year, going from 3.254 percent in December 2018 to 2.683 percent in December 2019 for 20 year borrowings, a decrease of 0.571 percent. City rates through the ACFA are locked in for the full term of the borrowing.

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 policy C203C - Debt Management Fiscal Policy.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position			
Outcome(s)	Measure(s)	Result(s)	Target(s)
City budget reporting demonstrates corporate accountability and performance	Percentage of significant capital profiles that are projected to be within acceptable tolerance (green/yellow status)	95.1% (as of December 31, 2019)	100%

Attachments

1. Capital Results - 2019 to 2022
2. Capital Financial Update - December 31, 2019
3. Debt Update - December 31, 2019

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- J. Meliefste, Acting Deputy City Manager, Integrated Infrastructure Services
- K. Armstrong, Deputy City Manager, Employee Services
- R. Smyth, Deputy City Manager, Citizen Services
- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor