

Capital Financial Update - September 30, 2020

Recommendation

That the November 16, 2020, Financial and Corporate Services report FCS00103, 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 provides the September 30, 2020 capital financial update, including updates on significant capital projects, results and projections against the approved 2019-2022 Capital Budget, and an update on the City's forecasted debt and debt servicing.

Report

The Capital Financial Update focuses on the approved 2019-2022 Capital Budget, reporting the status of significant capital profiles against budget and budgeted completion dates. Significant projects are 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 September 30, 2020, 77 profiles met this definition and are considered significant projects. These 77 profiles account for 86 percent of the total approved Capital Budget.

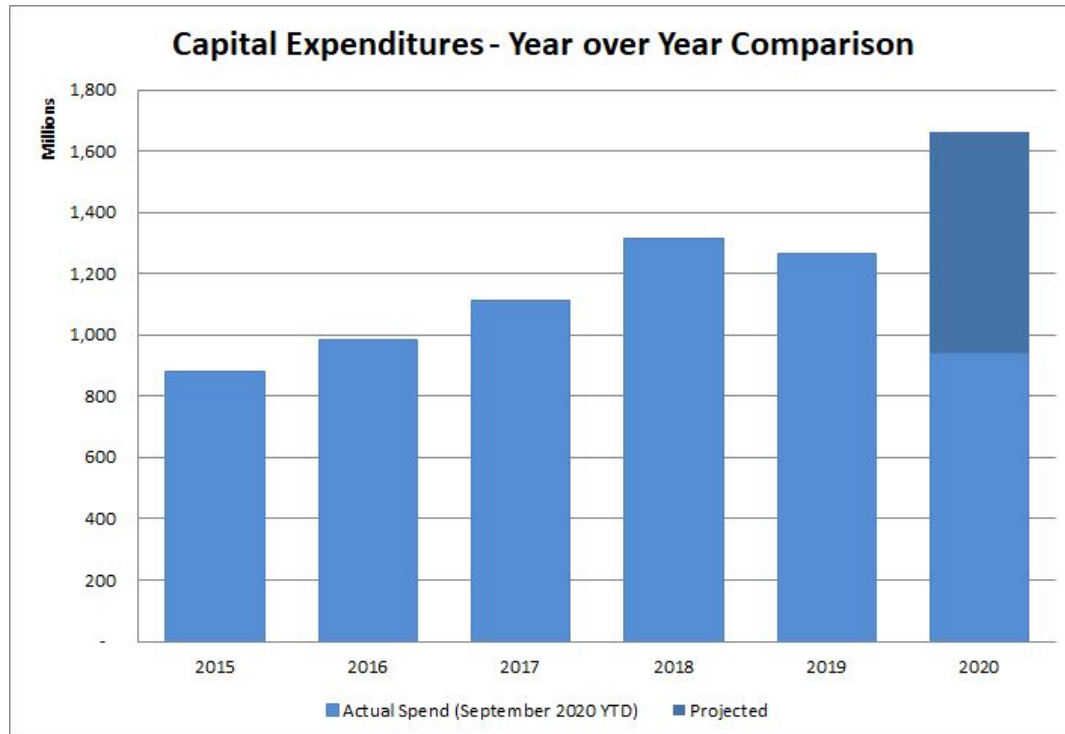
2019-2022 Capital Budget Performance against Planned Performance

The total approved 2019-2022 Capital Budget is \$9,695.6 million, which includes carry forwards from the 2015-2018 Capital Budget and approved capital expenditures beyond 2022.

The 2019-2022 Capital Budget is composed of 354 active profiles (228 standalone profiles and 126 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 projects complete preliminary design (Checkpoint 3), and budgets for growth projects reach \$2 million and renewal projects

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

2020 Projected Spending Comparison



The projected spend of \$1,664.5 million for 2020 is significantly higher than the 2019 spend due to:

- timing of bus deliveries in 2020 compared to 2019;
- higher spending on LRT as the Metro Line extension and Valley Line to Lewis Farms projects start;
- Yellowhead Trail project progressing; and
- Fort Edmonton Park Utilities project progressing as it comes to a close by the end of 2020.

Budget Cycle Spend

Budgeted expenditures for 2019-2022 total \$7,293.3 million. As of September 30, 2020, the City spent \$2,217.9 million, or 30.4 percent of the budgeted capital expenditures in the four year cycle. For comparison, planned expenditures for the 2015-2018 Budget Cycle totalled \$5,954.0 million, of which 25.8 percent was spent as of the same period of that cycle, September 30, 2016. The majority of the increased spending in the 2019-2022 Budget Cycle is for LRT projects, primarily the Valley Line Southeast.

Attachment 1 provides the budgeted 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

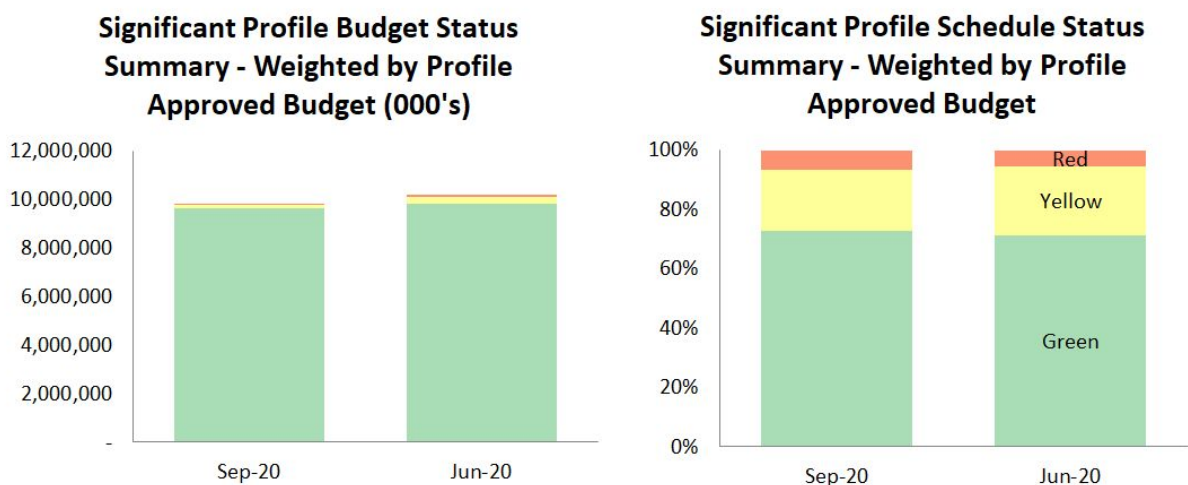
The September 30, 2020 Capital Financial Update reports on 77 (43 standalone and 34 composites) of the 354 active profiles that meet the definition of a significant capital project. Since the last Capital Financial Update reporting to June 30, 2020, no new profiles have been added. Four profiles were removed since the Q2 2020 report as they were substantially completed:

1. Kathleen Andrews Transit Garage
2. Milner Library Renewal
3. Bonnie Doon Pool Rehabilitation
4. Capital Line LRT Heritage Valley Park and Ride

Capital Profile Performance

Of the 354 active profiles within the 2019-2022 Capital Budget, 77 are considered “significant” for the September 30, 2020 Capital Financial Update. Of these, 76 are within the acceptable tolerance for budget status, and 61 significant profiles are within the acceptable tolerance for schedule status.

The following charts represent the budget and schedule status of significant 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.*

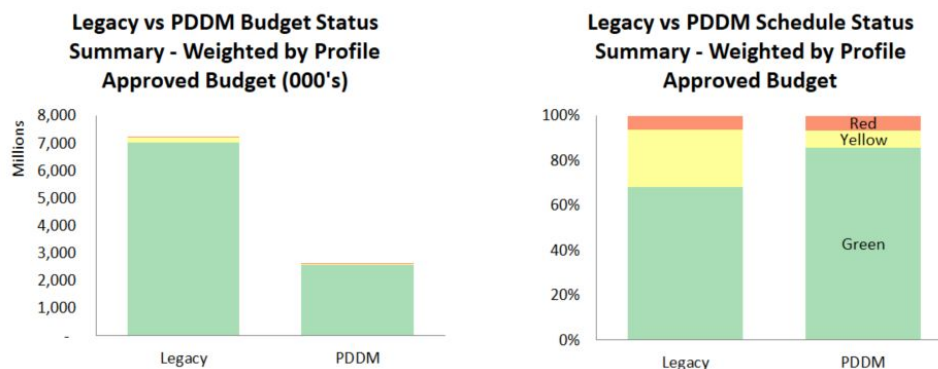
As of September 30, 2020, the majority of capital profiles, weighted by approved budget, are within an acceptable tolerance (profiles with a green or yellow status) for budget (99.7 percent) and schedule (93.4 percent).

Project Development and Delivery Model

The Project Development Delivery Model (PDDM) was implemented in April 2017 and no significant profiles have yet been completed under this model. Of the 43 significant standalone capital profiles in this report, 20 profiles are being delivered under PDDM. Of these 20, all are reporting within an acceptable tolerance (profiles with green or yellow status) for budget and 17 are within acceptable tolerance for schedule.

The majority of composite profiles are new in the 2019-2022 Capital Budget and, as a result, 64.2 percent of the approved budget for significant composite profiles is being delivered under the PDDM. 98.8 percent of the approved budget for significant projects are within an acceptable tolerance for budget, and 93.6 percent are within an acceptable tolerance for schedule.

The charts below compare current projected performance of the significant legacy profiles compared to the significant PDDM profiles. A larger majority of significant profiles are in progress previous to the implementation of PDDM. As the legacy projects are completed and removed from the list of active projects, the majority of the projects will transition to PDDM delivery. Early results show improved budget and schedule performance for PDDM projects compared to legacy-managed profiles. Compared to legacy projects, the improved performance is partly due to PDDM's strategy of adapting the budget and schedule based on higher levels of design.



Emerging Risk and Funding Implications

The City's Capital Budget is highly dependent on grant funding, both for the rehabilitation and renewal of existing infrastructure and for major strategic growth projects such as LRT network expansion.

Local Government Fiscal Framework

The long-term capital funding provided to municipalities through the provincial Municipal Sustainability Initiative (MSI) is set to be replaced in 2022 by the Local Government Fiscal Framework (LGFF). The Local Government Fiscal Framework Act has been passed in the Alberta Legislature and has received Royal Assent. It must still be proclaimed before it comes into force. The City of Edmonton's 2022 LGFF funding allocation is estimated to be approximately \$184.1 million. Edmonton's 2020 MSI funding allocation was \$191.9 million. To maintain approved schedules and budgets, the City of Edmonton is advocating that the same projects that were eligible for MSI funding remain eligible for the LGFF.

Capital Line Southeast LRT Extension

The City continues its long-term vision for the LRT network expansion with Phase 1 of the Capital Line Southeast Extension. This approximately \$1 billion project will extend the Capital Line to the south by 4.5 km and create two new LRT stations, one new maintenance facility and add 24 light rail vehicles. At the request of the Province, the City has submitted a business case to the provincial and federal governments seeking funding to support the Capital Line Southeast LRT extension. To meet the provincial goal of a 2021 construction start, both the provincial and federal approvals must occur in an expedited manner. The Province is supportive of the project as it utilizes existing funding commitments, creates significant job opportunities and has a considerable economic impact within the capital region. The City is engaging with each order of government during the review process to ensure construction can begin on time.

COVID-19 Response

The City of Edmonton has received capital funding to support its COVID-19 response through the Municipal Stimulus Program. Under the Municipal Stimulus Program, the City has been allocated \$115.6 million to support shovel-ready capital infrastructure projects, with the primary objective to sustain and create local jobs. All funding must be utilized by the end of 2021.

Exchange Rate Risk

Exchange rates have differing effects on project financial performance. In many road and open space projects, the labour, equipment and materials (e.g., asphalt, concrete, etc.) are primarily sourced locally so the foreign exchange risk is lower. Building projects, or those sourced with equipment and materials not found locally (e.g., plumbing, mechanical, electrical, etc.), can experience moderate risk of cost

pressures. Fleet and IT projects similarly have moderate to high risk with financial performance linked directly to fluctuating exchange rates. As part of the budget process, estimates are developed based on current and projected trends related to exchange rates within the four-year budget timeframe.

The average forecasted rate, based on the most recent exchange rate forecasts from Canada's five largest chartered banks, indicates a more optimistic outlook for the Canadian dollar against the US dollar relative to forecasts from Q2 2020. The average exchange rate forecast across the five banks for Q4 2020 is 1.32, compared to an average of 1.36 in Q3. The average exchange rate forecast across all five banks then holds at 1.32 before ticking down to 1.31 in Q3 2021.

See Attachment 2 of the November 16, 2020, Financial and Corporate Services report FCS00104 - Operating Financial Update - September 30, 2020 for further economic information.

Debt Update

The City is projecting to end 2020 at 54.9 percent of the *Municipal Government Act* (MGA) debt limit, with \$3.3 billion of outstanding debt, which is a net increase of \$99 million (three percent) from 2019. This includes projected borrowings of \$221 million tax-supported debt and \$23 million self-liquidating debt through the Alberta Capital Finance Authority (ACFA), and \$116.4 million in P3 financing for Valley Line Southeast.

The City's 20-year borrowing rates have decreased over the past year, going from 2.464 percent in September 2019 to 1.882 percent in September 2020. 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)	94.7% (as of September 30, 2020)	100%

<p>Ensure transparent, conservative and reasonable debt financing as a source of funding to support the City's long-term capital plans and strategies while maintaining long-term financial affordability, flexibility and sustainability.</p>	<ul style="list-style-type: none"> The City of Edmonton is subject to limits both for total debt and debt servicing by the <i>Municipal Government Act</i> and by the City's internal <i>Debt Management Fiscal Policy (C203C)</i>. <ul style="list-style-type: none"> The <i>Municipal Government Act</i> debt limit is two times the revenue of the City and the debt servicing limit is 35% of City revenues. For this calculation, revenues are net of capital government transfers and contributed tangible capital assets. The internal <i>Debt Management Fiscal Policy (C203C)</i> sets more conservative debt service limits at 22% (total debt) of City revenues and 15% (tax-supported debt) of Tax Levy Revenues. 	<ul style="list-style-type: none"> Based on the limits set under the <i>Municipal Government Act</i>, for December 31, 2020, the City is projecting to use 54.9% of its debt limit and 30.0% of its debt servicing limit. Based on the limits under the <i>Debt Management Fiscal Policy</i>, for December 31, 2020, the City is projecting to use 61.5% of its tax-supported debt servicing limit and 45.5% of its total debt servicing limit. 	<p>Total debt and debt servicing are below the limits set by the <i>Municipal Government Act</i> and by the internal <i>Debt Management Fiscal Policy (C203C)</i>.</p>
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Attachments

1. Capital Results - 2019 to 2022
2. Capital Financial Update - September 30, 2020
3. Debt Update - September 30, 2020

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