

Capital Financial Update - December 31, 2020

Recommendation

That the March 15, 2020, Financial and Corporate Services report FCS00286, be received for information.

Executive Summary

To meet the expectation of transparency, Administration provides Capital Financial Updates three times a year. Consistent and timely financial reporting to Council is part of managing the corporation for the community. This report provides the December 31, 2020 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.

Report

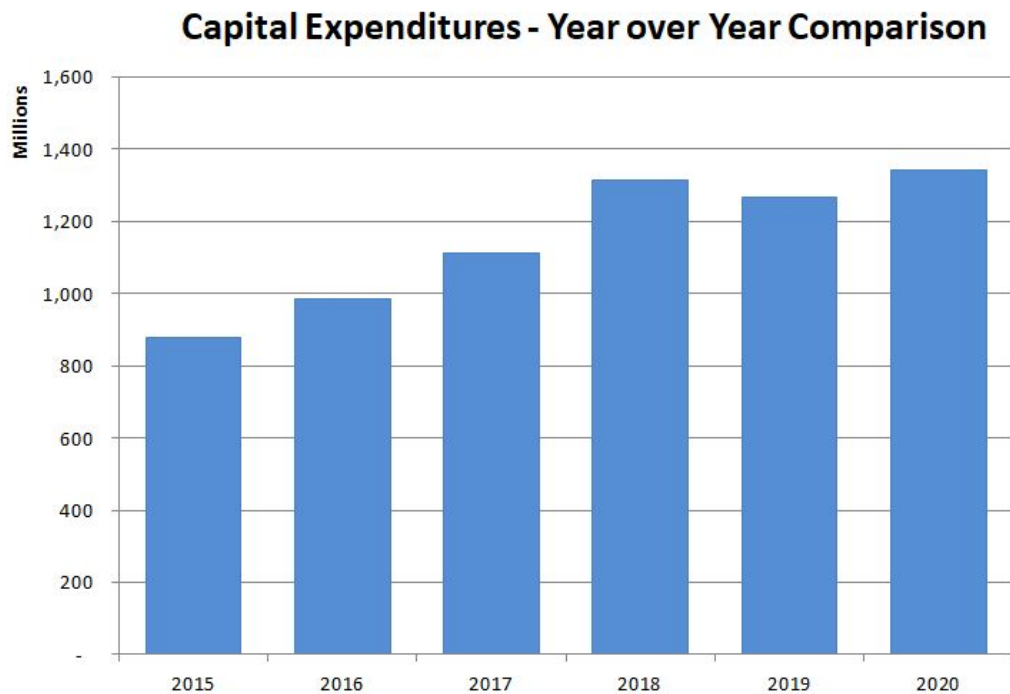
The Capital Financial Update focuses on the approved 2019-2022 Capital Budget by reporting the status of significant capital profiles against budget and scheduled completion dates. Significant projects are capital profiles that have expenditures of at least \$20 million within the 2019-2022 Capital Budget cycle; or profiles that are highly strategic, complex, include many stakeholders, have major constraints, and/or include a high level of risk. For the period ended December 31, 2020, 69 profiles met this definition and are considered significant projects for financial reporting purposes. These 69 profiles account for 84.3 percent of the total approved Capital Budget.

2019-2022 Capital Budget Performance against Planned Performance

The total approved 2019-2022 Capital Budget is \$9,896.2 million, which includes carry forwards from the 2015-2018 Capital Budget and approved capital expenditures for projects with completion dates beyond 2022.

The 2019-2022 Capital Budget is composed of 365 active profiles (238 standalone profiles and 127 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 preliminary design (Checkpoint 3) is complete and project estimates reach \$2 million for growth projects and \$5 million for renewal projects, the project budgets are removed from the composite profile and standalone profiles are established.

2020 Spending Comparison



The expenditures of \$1,341.6 million for 2020 are in line with spending from previous years with the majority (74.2 percent) of the spending in 2020 concentrated on LRT, roads, and neighbourhood projects.

Budget Cycle Spend

Budgeted expenditures for 2019-2022 total \$7,401.7 million. As of December 31, 2020, two years into the budget cycle, the City spent \$2,612.1 million, or 35.3 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 31.1 percent was spent as of the same period of that cycle, December 31, 2016. The majority of the increased spending in the 2019-2022 Budget Cycle can be attributed to LRT projects, primarily the Valley Line Southeast.

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

The December 31, 2020 Capital Financial Update reports on 69 profiles (40 standalone and 29 composite) that meet the definition of a significant capital project,

representing 84 percent of the approved capital budget. Since the last Capital Financial Update reporting to September 30, 2020, one new profile has been added:

- Rural and Industrial Road Upgrading

Six profiles were removed since the Q3 2020 report as their budgets are now below the \$20 million significant capital project threshold. These projects are composite profiles that have had projects reach checkpoint 3 for which standalone profiles have been created:

- Facility: Safety and Security - Renewal
- Waste Services IIS Infrastructure Planning and Design
- Building Great Neighbourhoods: Planning and Design - Growth
- Building Great Neighbourhoods: Delivery - Growth
- Waste Services IIS Infrastructure Delivery
- Infrastructure Delivery - Growth

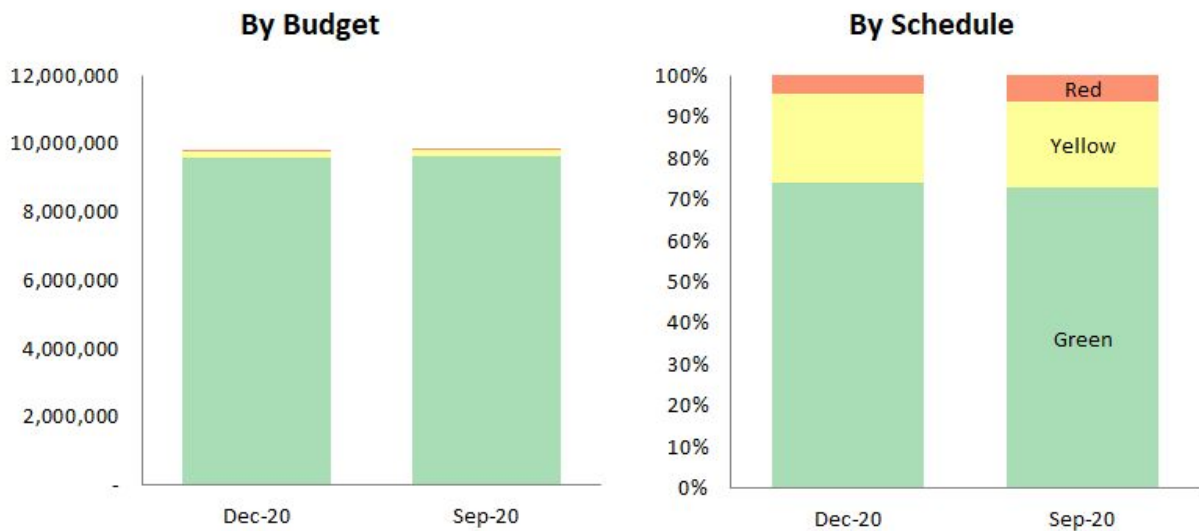
Three more profiles have been removed since the Q3 2020 report as they are substantially complete and in service:

- Goat Road over North Saskatchewan River
- LRT Preliminary Design: Metro Line - Blatchford to Campbell Road
- Neighbourhood Renewal - Royal Gardens

Capital Profile Performance

Of the 365 active profiles within the 2019-2022 Capital Budget, 69 are considered “significant” for the December 31, 2020 Capital Financial Update. Of these, all are within the acceptable tolerance for budget status, and 58 are within the acceptable tolerance for schedule status.

The following charts present 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. The status charts are weighted by the profiles approved budget.*

***The red status for December 2020 in the budget chart (chart on the left) relates to a few projects within two composites reporting red for budget, however the majority (85%+) of the projects within those composite profiles are reporting within the acceptable tolerance of green or yellow status for budget.*

As of December 31, 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 (95.5 percent).

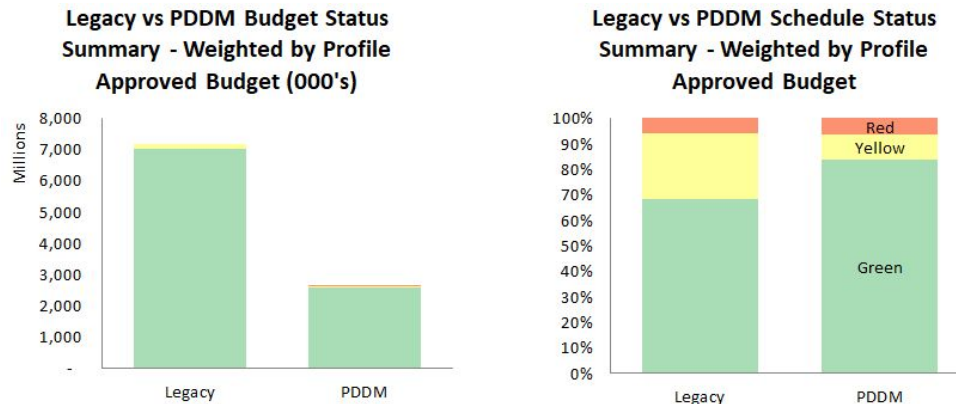
Project Development and Delivery Model

The Project Development Delivery Model (PDDM) was implemented in April 2017 and no significant profiles have started and completed under this model. Of the 40 significant standalone capital profiles in this report, 19 profiles are being delivered from their inception under PDDM. Of these 19, 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, 69.0 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 94.6 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 were in progress prior 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.



Exchange Rate Risk

Changes in currency exchange rate expectations can inform project financial performance to varying extents, depending on the type of project. For example, labour, equipment and materials for many road and open space projects can be sourced locally, which means those types of projects face low risks to financial performance. For building projects where components may not be found locally, such as plumbing, mechanical and electrical, risks of cost pressures with any changes in the exchange rate may be moderate by comparison. Fleet and IT projects face moderate to higher risks due to a higher likelihood of procurement originating from the US.

Quarterly forecasts for the CAD-USD exchange rate, based on an average of the most recent quarterly forecasts from Canada's five largest chartered banks, indicate improvements in the Canadian dollar against the US dollar compared to forecasts gathered in fall 2020. The average quarterly exchange rate forecast is 1.27 for each quarter in 2021, whereas in fall 2020, the average across the five chartered banks for 2021 was 1.32.

See Attachment 2 of the March 15, 2021, Financial and Corporate Services report FCS00281 - Operating Financial Update - December 31, 2020 for further economic information.

Debt Update

The City ended 2020 using 56.6 percent of the *Municipal Government Act* (MGA) debt limit, with \$3.41 billion of outstanding debt, which is a net increase of \$204 million from

2019. This includes 2020 borrowings of \$223 million tax-supported debt and \$24 million self-liquidating debt through the Government of Alberta’s Treasury Board and Finance¹, and \$122.2 million in P3 financing for Valley Line Southeast.

The City’s 20-year borrowing rates have decreased over the past year, going from 2.683 percent in December 2019 to 2.084 percent in December 2020. City rates through Treasury Board and Finance sourced debentures 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)	95.0% (as of December 31, 2020)	100%
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>- 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>:</p> <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. 	<p>- 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.</p> <p>- 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> .

Attachments

1. Capital Results - 2019 to 2022
2. Capital Financial Update - December 31, 2020
3. Debt Update - December 31, 2020

¹ Formerly borrowed through the Alberta Capital Finance Authority (ACFA)

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
- K. Fallis-Howell, Acting City Solicitor