

For Information

REPORT TITLE: **2019 Capital Performance and Impact on Capital Reserves and Reserve Funds**

FROM: Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

OBJECTIVE

To provide a status update on the 2019 Capital Program and the impact on Capital Reserves and Reserve Funds as at December 31, 2019.

REPORT HIGHLIGHTS

- The 2019 Capital Program began with an opening balance of \$3.9 billion (1,494 projects) consisting of the approved 2019 Capital Budget and Capital Work in Progress from prior years; the total capital program has an ending balance of \$3.2 billion as at December 31, 2019.
- Ninety-seven per cent of the 2019 Regionally Controlled capital work progressed on schedule which is within the past five years' progress range for the same triannual period.
- The top 25 largest capital projects, by remaining gross budget, make up 49 per cent of the remaining budget of active projects as at December 31, 2019 for Regionally Controlled programs.
- Capital work completed in 2019 totaled \$0.7 billion which was largely driven by Utility Rate supported capital project spending.

DISCUSSION

1. Overview of 2019 Capital Program

The capital work represents a key component of the Region of Peel's service delivery. The capital work is used to acquire, improve or maintain land, buildings, roads, water and sewer mains, pumping stations, machinery and equipment, information technology and to conduct studies relating to corporate assets.

The Region's capital plans are developed based on the Region's Growth Master Plans, Regional Official Plan, Corporate Asset Management Plan for state of good repair and other Regional Council directions such as the Waste Reduction and Resource Recovery Strategy and the Housing Masterplan. The Region actively monitors the changes to these plans and adjusts the capital plan where it is required. A significant portion of the Region's capital work consists of large projects that take five to eight years to complete from start to finish.

2019 Capital Performance and Impact on Capital Reserves and Reserve Funds

The 2019 Capital work had an opening balance of \$3.9 billion which consists of projects which are Regionally Controlled (\$3.7 billion), and those managed by external agencies (\$0.2 billion) such as Peel Regional Police (PRP), Ontario Provincial Police (OPP) and Conservation Authorities. This includes new capital work approved in the 2019 capital budget (\$1.3 billion), capital budget changes during 2019 approved through Council reports or by Council delegated authority (an increase of \$124 million), and the remaining capital work previously approved by Council in prior years (\$2.5 billion).

As at December 31, 2019, the capital work had 1,273 active capital projects with a gross remaining budget of \$3.2 billion (\$3.1 billion for Regionally Controlled) after capital spending of \$664 million.

The Budget Policy requires that staff report the status of the capital program at a minimum of twice annually. This report provides the third and final update on the status of 2019 Capital Operations and the impact on Capital Reserves and Reserve Funds as at December 31, 2019.

2. Capital Operations and Financing Impact

The Region of Peel actively monitors the performance of the capital operations by tracking the capital project progress through various stages of its project life cycle and analyzing work in progress. Staff review capital performance every triannual period and reports to Regional Council on the status of the capital work in progress including significant variances.

a) 2019 Capital Spending

Capital spending for both Tax and Utility Rate Supported services (including Regionally Controlled and external agencies) in the twelve months of 2019 amounted to \$664 million (\$634 million for Regionally Controlled), with \$300 million spent in Tax Supported Services and \$364 million spent in Utility Rate Supported Services.

The \$664 million capital spending during the twelve months of 2019 was invested in the Region's major services. Highlights are provided in Appendix I.

b) The Progress of Regionally Controlled Capital Program

The progress of Regionally Controlled capital projects, comprising 1,306 out of the total of 1,494 Region of Peel projects, was actively monitored and measured. Of the 2019 opening balance of Regionally Controlled capital work of \$3.7 billion, 97 per cent of the Regionally Controlled capital program progressed on schedule which is within the past five years' progress range for the same triannual period. Three per cent of capital projects (\$105 million) are either on hold as a result of Regional Council or Management decisions or haven't incurred spending as the projects are at the early stage or have been deferred or delayed due to management review or unforeseen circumstances.

Of the total 1,306 Regionally Controlled capital projects, 167 projects were completed during the twelve months of 2019 with \$28.1 million unspent funds returned to reserves. The Regionally Controlled Capital Program ended the 3rd triannual period of 2019 with a closing balance of \$3.1 billion.

2019 Capital Performance and Impact on Capital Reserves and Reserve Funds

c) Work in Progress - Top 25 Regionally Controlled Capital Projects

While all capital projects are actively managed, in order to efficiently manage the Regionally Controlled capital service and mitigate the risks effectively, staff also focus on the progress and report to Council on the 25 largest capital projects based on remaining gross budget value. In magnitude, the top 25 active capital projects represent about two per cent of the total number of active capital projects but represent 49 per cent of the remaining budget of active regionally controlled capital projects.

By December 31, 2019, 22 of the 25 capital projects are on track. Two projects are delayed, and one is on hold.

- The Daniels Affordable Housing project is behind schedule by three to four months due to severe weather conditions in the winter and spring. This project is estimated to be completed in the second or third quarter of 2020.
- The schedule to begin construction on the Mayfield Road-Airport Road project has been impacted by challenges in property acquisition. Staff are working on the phasing and staging of construction to ensure it is still completed on time.
- Contracts 1 & 2 of Williams Parkway Sub-Transmission project are on hold as the City of Brampton's road widening of Williams Parkway is under review. Staff expect the City will be providing further direction before the end of 2020 which will impact whether the project proceeds as planned or portions or all of the work is to be deferred.

Two projects are in the construction stage and the remaining 23 projects are in initiation, Environmental Assessment (EA), studies, procurement, pre-engineering and design stages.

Appendix III provides the status of the top 25 capital projects with highest gross remaining budget broken down into tax and utility rate services. Analysis of the top 25 projects shows:

- The total gross budget of the Top 25 largest projects is \$2.2 billion with remaining budget of \$1.5 billion;
- By end of third triannual period, the cumulative spending of the top 25 capital projects amounted to \$745.7 million or 33 per cent of the gross approved budget.

3. Impact of 2019 Capital Program on Capital Reserves and Reserve Funds

Capital spending impacts the Region's internal capital reserves and overall financial flexibility. In order to execute the 2019 Capital Program within the constraints of the cash levels of the reserves and reserve funds, staff continues to proactively phase in the capital projects. As major projects move from one phase to the next, consideration is given to the Region of Peel's current financial condition prior to proceeding.

a) Capital Reserves

The 2019 regionally controlled capital activities resulted in a total net reserve draw of \$93.6 million in the last six months of the year (\$93.0 million drawn from internal capital reserves and \$0.6 million drawn from Development Charge reserve funds). The main

2019 Capital Performance and Impact on Capital Reserves and Reserve Funds

driver of the net reserve draw is for the implementation of the Region of Peel's Housing Master Plan as approved by Council. As at December 31, 2019, the regionally controlled internal capital reserves uncommitted balance was estimated at \$272.5 million.

Overall, the long-term sustainability of the Region's capital reserves has remained strong over recent years through Regional Council's approval of the tax and utility rate infrastructure levies to allow for increases to the capital reserve contributions. Effective management of approved capital budgets and ongoing review of capital plans have also helped the Region of Peel to maintain financial sustainability.

b) Development Charges

Development Charges (DCs) are a key funding source for growth related capital projects. The total DC revenue collected in 2019 was \$304.8 million, lower by 12.0 per cent from the forecast amount in the 2015 DC Background Study of \$345.9 million.

c) Impact on Debt Plan

Debt is one of the tools used to maintain financial flexibility by providing additional cash. It is issued against significant long term assets. As noted above, the Region's capital program is managed to ensure debt levels balance and are appropriate and in line with the Debt Policy. Although Council provided approval for borrowing of between \$150 million and \$200 million for DC in 2019, it was not required as the ending DC reserve fund was at a deficit at \$71.9 million. During the 2015 DC By-law update, debt financing requirements were estimated at \$1.91 billion in 2019. By actively managing the growth capital program, DC debt issued to date has been limited to \$1.43 billion.

As at December 31, 2019 the Region of Peel's net outstanding debt totals \$1,288 million. The debt can be separated into three general categories as illustrated in Table 2 below.

Table 2: Outstanding Debt as of December 31, 2019

Type of Debt	Net Outstanding Debt (\$ millions)*
DC Growth Related debt	1,425.6
Non-DC Growth Related debt (Tax Supported)	87.6
Facility – 7120 Hurontario	50.0
Social Housing	35.0
Coleraine Drive Debt Transfer from Caledon	2.6
Less: Sinking Fund Contributions and Principal Repayments**	(357.5)
Mortgages (Peel Living)	132.5
Total	1,288.2

Figures are unaudited and exclude borrowings for local municipalities.

**Figure includes an estimate for the interest earned to date from the sinking fund.

2019 Capital Performance and Impact on Capital Reserves and Reserve Funds

The Province imposes an Annual Repayment Limit (ARL) on municipalities. This is 25 per cent of the net revenues for the municipality. Based on the most current Provincial estimate (2018), the Region's net debt charges were 8.4 per cent of net revenues and the Region had annual debt repayment room of approximately \$278 million before the 25 per cent maximum would be reached.

However, it is likely that key rating metric thresholds consistent with the Region's current Triple A rating would be approached prior to reaching the Region's ARL. It is also possible that the Region could experience a credit rating downgrade prior to the ARL approaching 25 per cent.

CONCLUSION

Overall, capital operations largely progressed as planned in 2019 through effective management. The 2019 capital work was implemented within the constraints of the reserves, reserve funds and debt plan, which allows the Region to maintain its financial flexibility.

APPENDICES

- Appendix I - 2019 Capital Spending (January – December)
- Appendix II - Capital Program 2019 Work in Progress (Regionally Controlled Programs)
- Appendix III - Status of Top 25 Capital Projects (With Highest Gross Remaining Budget) – Regionally Controlled Programs

For further information regarding this report, please contact Norman Lum, Director, Business and Financial Planning, 905-791-7800 ext. 3567 or via email Norman.Lum@peelregion.ca.

Reviewed and/or approved in workflow by:

Department Commissioner, Division Director, Financial Support Unit and Legal Services.

Final approval is by the Chief Administrative Officer.



N. Polsinelli, Interim Chief Administrative Officer