
For Information

REPORT TITLE: 2021 Capital Performance and Impact on Capital Reserves and Reserve Funds – December 31, 2021 (Unaudited)

FROM: Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

That the Capital Project 20-5172 – PAMA HVAC – 7 Wellington be increased in the amount of \$387,000 funded from the Capital Finance Stabilization General Government Reserve (R0230), for a total project cost of \$1,693,760;

And further, that Capital Project 21-5172 – PAMA HVAC - 9 Wellington be increased in the amount of \$268,000 funded from the Capital Finance Stabilization General Government Reserve (R0230), for a total project cost of \$1,622,547.

REPORT HIGHLIGHTS

- The 2021 Capital Program began with an opening balance of \$4.5 billion (1,583 active projects) consisting of the approved 2021 Capital Budget and Capital Work in Progress from prior years; the total capital program has an ending balance of \$3.9 billion (1,361 active projects) as at December 31, 2021.
 - Regionally Controlled Programs:
 - Capital work completed in 2021 totaled \$531.8 million, with \$234.3 million spent in Tax Supported Services and \$297.5 million spent in Utility Rate Supported Services.
 - 93 per cent of the capital work progressed on schedule, slightly lower than the past five years' average for the same triannual period (i.e., 97 per cent).
 - The top 25 largest capital projects, by remaining gross budget, make up 47 per cent of the remaining budget of active projects as at December 31, 2021.
 - Staff recommends that, to address unanticipated site conditions and supply chain pressures, the PAMA HVAC capital projects be increased in the total amount of \$655,000 funded from the Capital Finance Stabilization General Government Reserve, R0230.
 - An operating performance report 2021 year-end has been provided to Regional Council for the status update on the operating program.
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DISCUSSION

1. Background

The Budget Policy requires that staff report the status of operating and capital services at a minimum of twice annually to manage financial performance to ensure the long-term

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financial sustainability of Regional services. This report provides the third and final update on the financial results of the 2021 Capital Budget as of December 31, 2021.

2021 Capital Budget

On February 11, 2021, Regional Council approved \$1 billion capital investment in Peel's infrastructure through the 2021 Budget. The approved 2021 Capital Budget includes \$63.9 million to the Region's externally financed agencies: Peel Regional Police, Ontario Provincial Police, and three Conservation Authorities. The approved budget provided the Region with Capital funding to support community needs through services under three areas of focus: Living, Thriving and Leading.

2. Overview of 2021 Capital Program

The capital work represents a key component of the Region'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 Master Plan. 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.

The 2021 Capital work had an opening balance of \$4.5 billion (1,583 projects) which consists of projects which are Regionally Controlled (\$4.3 billion), and those managed by agencies (\$0.2 billion) such as Peel Regional Police (PRP), Ontario Provincial Police (OPP) and Conservation Authorities. This includes \$1.0 billion of new capital work approved in the 2021 capital budget, an increase of \$30.7 million in capital budget changes during 2021 (approved through Council reports or by Council delegated authority), and the remaining capital work previously approved by Council in prior years of \$3.5 billion.

As at December 31, 2021, the capital work had 1,361 active capital projects with a gross remaining budget of \$3.9 billion (\$3.8 billion for Regionally Controlled) after capital spending of \$0.6 billion.

3. Capital Operations and Financing Impact

The Region 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) 2021 Capital Spending

Capital spending for both Tax and Utility Rate Supported services (including Regionally Controlled and external agencies) in 2021 amounted to \$597.9 million (\$531.8 million for Regionally Controlled), with \$300.4 million spent in Tax Supported Services and \$297.5 million spent in Utility Rate Supported Services.

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The \$597.9 million capital spending during 2021 was invested in the Region's major services. Highlights are provided in Appendix I.

b) Progress of Regionally Controlled Capital Program

The progress of the Regionally Controlled capital projects, comprising 1,402 out of the total of 1,583 Region of Peel projects, was actively monitored and measured. Of the 2021 opening balance of Regionally Controlled capital work of \$4.3 billion, 93 per cent of the Regionally Controlled capital program progressed on schedule, slightly lower than the past five years' average for the same triannual period (i.e. 97 per cent). Seven per cent of capital projects (\$288.1 million) are either on hold, delayed or cancelled as a result of Regional Council or Management decisions or haven't incurred spending as the projects are at the early stage, have been deferred or delayed due to management review or unforeseen circumstances.

Of the total 1,402 Regionally Controlled capital projects, 170 projects were completed during 2021 with \$25.7 million in net unspent funds returned to reserves. The Regionally Controlled Capital Program ended 2021 with a closing balance of \$3.8 billion. Summaries are provided in Appendix II.

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

While all capital projects are actively managed 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 the remaining gross budget value. In magnitude, the top 25 active capital projects represent 47 per cent of the remaining gross budget value of active regionally controlled capital projects and two per cent of the total number of active capital projects.

Appendix III provides the status of the top 25 capital projects with the highest gross remaining budget. Analysis of the top 25 projects shows:

- The total gross budget of the top 25 largest projects is \$2.7 billion with a remaining budget of \$1.8 billion.
- By year-end, the cumulative spending of the top 25 capital projects amounted to \$899.4 million or 33 per cent of the gross approved budget.

As of December 31, 2021, 21 of the 25 capital projects are on track and 24 of the top 25 capital projects are on budget. Two of the following four projects have been delayed, one project is going to be terminated as per Council direction, one project is behind schedule and one project will require a budget increase.

Williams Parkway Sub-Transmission – Delayed.

- City of Brampton has cancelled the road widening of Williams Parkway. The planned combined tender with the City of Brampton and 90 per cent open cut design is now not feasible due to the traffic impacts. The consultant has started a redesign to tunnel the West Brampton watermain. The design is expected to be complete by mid-2022, and the tender in the second triannual of 2022.

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Highway 50 - 600 Metres South – Delayed

The detailed design was delayed due to:

- i) The Highway 427 extension and widening of Major Mackenzie Drive, completed by York Region ahead of the Region's Highway 50 project. These works required a redesign of the intersection of Major Mackenzie and Highway 50 to accommodate temporary conditions during the construction of Highway 50 improvements.
- ii) Special Policy 47 (SP47) Environmental Assessment (currently underway and led by the City of Brampton), required redesign of Highway 50 improvements project. Further redesign may be required pending the outcome of the SP47 Environmental Assessment Study.
- iii) Peel is coordinating with utility companies on the relocation design. The delays are a result of further coordination on the property requirements. Enbridge relocation design is underway, and a number of options are being reviewed to address the conflict with an existing gas main.

Regional construction for this project is anticipated to start in 2025 and will last three – four years.

Anaerobic Digestion Facility – To Be Terminated

- The procurement of the Anaerobic Digestion was cancelled by Regional Council on July 8, 2021 (Resolution Number 2021-902). The remaining proponents for design and bid fee were paid in the third triannual of 2021. Staff are assessing next steps to achieve diversion targets.

Peel Manor Site Redevelopment – Behind Schedule

- The general contractor has not been performing to contract expectations for the past few months and the Omicron variant has had severe impacts to the manpower on site as well. Further delays to the revised baseline schedule are expected and substantial performance is currently forecast to be achieved by the third quarter of 2022. Abatement and demolition of the existing building, and the balance of the site works is scheduled to commence late fourth quarter of 2022 and total project completion is forecast by late second quarter in 2023.

East Avenue, Housing Master Plan – Not on Budget

- Staff anticipates returning to Council in September 2022, requesting an increase to the budget. The proposed project has increased in cost due to inflationary pressures and significant supply chain disruptions resulting from the COVID-19 pandemic's impact on the construction sector. The variance in the budget is one-time only and will not result in further adjustments to the following year's budget.

Ten of the 21 projects are in the construction stage and the remaining 11 projects are in initiation, planning, design, and procurement stages.

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4. Impact of 2021 Capital Program on Capital Reserves and Reserve Funds

Capital spending impacts the Region's internal capital reserves and overall financial flexibility. To execute the 2021 Capital Program within the constraints of the cash levels of the reserves and reserve funds, staff continue 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 2021 Regionally Controlled capital activities resulted in a total net reserve return of \$32.8 million during the year (\$29.8 million returned to internal capital reserves and \$3.0 million returned to the Development Charge reserve funds). As at December 31, 2021, the Regionally Controlled internal capital reserves uncommitted balance was estimated at \$292.5 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 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 are a key funding source for growth related capital projects. The total Development Charges revenue collected in 2021 was \$287.6 million, lower by 32 per cent from the forecast amount in the 2020 Development Charge Background Study of \$420.0 million.

c) Impact on Debt Plan

Debt is primarily issued to fund timing mismatches between growth related revenues and expenses. Projects funded by debt are typically growth-related infrastructure projects with long useful lives. The debenture program is managed in accordance with the Region's 'Debt Management Policy' and applicable legislation and regulations. In 2021, for its own purposes, the Region issued \$130 million, of which \$111.8 million was attributable to refinancing and \$18.2 million of incremental new Development Charge related debt.

As at December 31, 2021 the Region of Peel's net outstanding debt totals \$1.4 billion. The debt can be separated into three general categories as illustrated in Table 1 below.

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Table 1: Outstanding Debt as of December 31, 2021

Type of Debt	Net Outstanding Debt (\$ Millions) ¹
DC Growth Related debt	1,524.1
Non-DC Growth Related debt (Tax Supported)	103.9
Facility – 7120 Hurontario	44.0
Social Housing	57.3
Coleraine Drive Debt Transfer from Caledon	2.6
Less: Sinking Fund Contributions and Principal Repayments²	(358.4)
Mortgages (Peel Living)	95.7
Total Net Debt	1,365.3

¹Figures are unaudited and exclude borrowings for local municipalities.

²Figure includes an estimate for the interest earned to date from the sinking fund.

The province imposes an Annual Repayment Limit on municipalities. The Annual Repayment Limit is set at 25 per cent of the net revenues for the municipality. Based on the most current Provincial estimate, the Region's net debt charges were eight per cent of net revenues

Despite the significant amount of room within the Annual Repayment Limit (ARL), it is likely that key rating metric thresholds consistent with the Region's current Triple A rating would be approached prior to reaching the 25 per cent ARL threshold. The Region closely monitors credit rating metrics to internally monitor financial flexibility and sustainability.

5. Increase Request

Two separate Infrastructure Canada grants created the opportunity to upgrade heating, ventilation, and air conditioning (HVAC) systems in PAMA buildings 7 and 9.

Subsequent to Council approving the project budget on October 28, 2021, a number of issues have resulted in pressures on the budget. These pressures include: the construction tender came in \$155,000 higher, there will be \$217,000 in additional work required for unanticipated site conditions, and increased costs of \$83,000 due to supply chain pressures. Additionally, staff are recommending the inclusion of \$200,000 in contingency for the remainder of the project, anticipated to be completed in the summer, for an overall budget increase of \$655,000.

As the project has been split into two projects to facilitate reporting for the two separate grants, the \$655,000 increase will allocate \$387,000 to project 20-5172 for Building 7 and \$268,000 to project 21-5172 for Building 9.

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6. 2021 Operating Performance

A report titled “2021 Operating Financial Triannual Performance Report – Year End (Unaudited)” is being provided to Regional Council on May 12, 2022. This supports Regional Council in their decision making on the Region’s operating program.

CONCLUSION

Overall, capital operations largely progressed as planned in 2021 through effective management. The 2021 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 - 2021 Capital Spending (January – December)

Appendix II - Capital Program 2021 Work in Progress (WIP) - Regionally Controlled Program

Appendix III - Status of Top 25 Capital Projects with Gross Remaining Budget – Regionally Controlled Program

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