
REPORT TITLE: 2022 Capital Performance and Impact on Capital Reserves and Reserve Funds – December 31, 2022 (Unaudited)

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

RECOMMENDATION

- 1. That \$300,000 of the approved capital budget for the Sewage Pumping Station Flow Meter Replacement capital project #23-2975 be transferred to the Water Facility Flow Meter Replacement capital project #23-1975 and that the funding source related to the transfer be changed from the Wastewater Capital Stabilization Reserve (R0242) to the Water Capital Stabilization Reserve (R0241); and**
- 2. That \$7,350,000 of the approved capital budget for the Wastewater System Supervisory capital project #19-2981 be transferred to the Security Improvements at Lake-Based Facilities capital project #19-1917; and**
- 3. That \$4,755,882 of the funding source for the Security Improvements at Lake-Based Facilities capital project #19-1917 be changed from the Wastewater Capital Stabilization Reserve (R0242) to the Water Capital Stabilization Reserve (R0241); and**
- 4. That \$2,594,118 of the funding source for the Security Improvements at Lake-Based Facilities capital project #19-1917 be changed from the South Peel Wastewater Development Charge Reserve (R3515) to the South Peel Water Development Charge Reserve (R3520).**

REPORT HIGHLIGHTS

- The 2022 Regionally Controlled Capital Program began with an opening balance of \$4.9 billion (1,417 projects) consisting of the approved 2022 Capital Budget and Capital Work in Progress from prior years; the total capital program has an ending balance of \$4.1 billion (1,317 active projects) as at December 31, 2022.
- Regionally Controlled Programs:
 - Capital work completed in 2022 totaled \$738.9 million, with \$274.2 million spent in Tax Supported Services and \$464.7 million spent in Utility Rate Supported Services.
 - 92 per cent of the capital work progressed on schedule, slightly lower than the past five years' average for the same triannual period (96 per cent).
 - The top 25 largest capital projects, by remaining gross budget, make up 46 per cent of the remaining budget of active projects as at December 31, 2022.

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- There are four staff recommendations related to moving capital projects that were included as part of the Wastewater capital budget that should have been part of the Water capital budget. The recommendations also re-align the work to the appropriate funding source.
 - An operating performance report 2022 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 financial sustainability of Regional services. This report provides the third and final update on the financial results of the 2022 Capital Budget as of December 31, 2022.

2022 Capital Budget

On December 2, 2021, Regional Council approved \$1.1 billion capital investment in Peel's infrastructure through the 2022 Budget. The approved 2022 Capital Budget includes \$63.7 million to the Region's Regionally Financed External Organizations: Peel Regional Police, Ontario Provincial Police, and three Conservation Authorities.

2. Overview of 2022 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 2022 capital work had an opening balance of \$5.1 billion (1,566 projects) which consists of Regionally Controlled projects (\$4.9 billion, 1,417 projects), and those managed by agencies (\$0.2 billion) such as Peel Regional Police (PRP), Ontario Provincial Police (OPP) and Conservation Authorities. This includes \$1.1 billion of new capital work approved in the 2022 capital budget, an increase of \$5.8 million in capital budget changes during 2022 (either approved through Council reports or by Council delegated authority), and \$4.0 billion of capital work previously approved by Council in prior years.

As at December 31, 2022, the capital work had a gross remaining balance of \$4.1 billion (1,454 projects) which consists of \$4.0 billion for Regionally Controlled projects (1,317 projects) after capital spending of \$0.8 billion.

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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) 2022 Capital Spending

Capital spending for both Tax and Utility Rate supported services (including Regionally Controlled and external agencies) in 2022 amounted to \$793.6 million (\$738.9 million for Regionally Controlled), with \$328.9 million spent in Tax supported services and \$464.7 million spent in Utility Rate supported services. Relative to the historical average capital spending over the past five years of \$638 million, Peel's capital program was advanced significantly in 2022.

The \$793.6 million capital spending during 2022 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 1,317 out of the total of 1,454 Region of Peel projects, was actively monitored and measured. Of the 2022 opening balance of the Regionally Controlled capital work in progress of \$4.9 billion, 92 per cent (based on gross remaining value) of the Regionally Controlled capital program progressed on schedule, slightly lower than the past five years' average for the same triannual period (96 per cent). Eight per cent of capital projects (\$375.4 million) are either on hold or delayed by Regional Council and/or Management decisions or unforeseen circumstances. In addition, some capital projects have not incurred spending as they are at an early stage.

Of the total 1,317 Regionally Controlled capital projects, 145 projects were completed during 2022 with \$125.0 million in net unspent funds returned to reserves. The Regionally Controlled Capital Program ended 2022 with a closing balance of \$4.0 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 46 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 \$2.9 billion with a remaining budget of \$1.8 billion.

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- By year-end, the cumulative spending of the top 25 capital projects amounted to \$1.0 billion or 36 per cent of the gross approved budget.

13 of the 25 projects are in the construction stage and the remaining 12 projects are in initiation, design, and procurement stages.

As of December 31, 2022, 21 of the 25 capital projects are on track for completion as scheduled and 24 of the top 25 capital projects are on budget. The following four projects have been delayed, and one project requires a budget increase:

Mississauga Road - Bovaird Drive: Delayed

- The project was originally planned to commence in 2022. Due to unforeseen challenges in receiving TransCanada (TC) Energy's pipeline crossing authorization, works are now expected to commence in the second quarter of 2023 and last a duration of three years.

Mayfield Road - Hurontario Street: Delayed

- The project was originally planned to commence in the first quarter of 2023. Due to unforeseen challenges with the utility relocations in 2022 and early 2023, works are now expected to commence in the third quarter of 2023 and last a duration of two years.

Central Brampton Sub-Transmission: Delayed

This project consists of three construction tenders and is a joint project with East Brampton Transmission Watermain capital project #14-1240.

- i) Contract 1 (Dixie Road from Clark Boulevard to North Park) had been deferred to be tendered by August 31st, 2023.
- ii) Contract 2 (Beckett Sproule Pumping Station to Dixie Road at Clark Boulevard) has also been deferred and is anticipated to be tendered in 2025 and completed in 2029.
- iii) Contract 3 (Commissioning of Contracts 1 & 2) is expected upon completion of Contracts 1 & 2, potentially in 2029.

Highway 50 - 600 Metres South: Delayed and Not on Budget

The detailed design was delayed due to the following:

- i) Required completion of the Highway 427 industrial secondary plan area Environmental Assessment before finalizing detailed design.
- ii) Required redesign of Highway 50 improvements in the area of Highway 50/ Major Mackenzie Drive/future A2 intersection to accommodate a future grade separation recommended by the Environmental Assessment.

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- iii) Late relocation design submission by some utility companies which led into delay in preparation of property impact drawings.

The detailed design is expected to be finalized early in 2023 and the property acquisition will be completed from 2023 to 2025 with utility relocation commencing in 2025. Regional construction is anticipated to start in the third quarter of 2026 and will last three or four years.

The project is not projected to be on budget. Inflationary price escalation has occurred since the original budget was set aside and staff anticipate requesting a funding increase as part of the 2024 budget process.

4. Impact of 2022 Capital Program on Capital Reserves and Reserve Funds

Capital spending impacts the Region's capital reserves and overall financial flexibility. To execute the 2022 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 2022 Regionally Controlled capital activities resulted in a total net reserve return of \$123.3 million during the year (\$166.7 million returned to capital reserves and an additional \$43.4 million was required from the Development Charge reserve funds). As at December 31, 2022, the Regionally Controlled capital reserves uncommitted balance was estimated at \$344.8 million.

Historically, the long-term sustainability of the Region's capital reserves has been strong through Regional Council's approval of the tax and utility rate infrastructure levies to allow for increases to capital reserve contributions. However, there will be significant pressure on the reserves in the future to maintain the state of good repair of Peel's housing stock notwithstanding any impacts from Bill 23. Continued effective management of approved capital budgets and ongoing review of capital plans will help 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 2022 was \$408.9 million, lower by 20 per cent from the forecast amount in the 2020 Development Charge Background Study of \$510.0 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 2022, the Region did not issue any debt for its own purposes.

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As at December 31, 2022, the Region of Peel's net outstanding debt totals \$1.3 billion. The debt can be separated into three general categories as illustrated in Table 1 below.

Table 1: Outstanding Debt as of December 31, 2022

Type of Debt	Net Outstanding Debt (\$ Millions) ¹
DC Growth Related debt	1,521
Non-DC Growth Related debt (Tax Supported)	81
Less: Sinking Fund Contributions and Principal Repayments²	(412)
Peel Housing Corporation	100
Total Net Debt	1,290

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 (ARL). The ARL 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 allowable debt capacity within the ARL, it is expected that the Region's financial metrics would be significantly pressured prior to reaching the 25 per cent ARL limit. Staff closely monitor financial metrics to ensure that the Region's long-term financial flexibility and sustainability is being preserved.

5. Budget Transfer and Funding Source Change Requests (2)

Due to an administrative oversight during the budget process, two capital projects that were intended to be included in the Water capital program were included in the Wastewater capital program. Staff are now requesting a correction to oversight through the transfers between capital project accounts and the related funding sources to be approved as follows:

1. Transfer \$300,000 of the capital budget from the Sewage Pumping Station Flow Meter Replacement capital project #23-2975 to the Water Facility Flow Meter Replacement capital project #23-1975. Capital project 23-2975 will be closed after the budget is transferred out. In addition, change the funding source related to the transfer in the amount of \$300,000 from the Wastewater Capital Stabilization Reserve (R0242) to the Water Capital Stabilization Reserve (R0241).
2. Transfer \$7,350,000 of the capital budget from the Wastewater System Supervisory capital project #19-2981 to the Security Improvements at Lake-Based Facilities capital project #19-1917. Capital project #19-1917 is for the implementation of security improvements at various lake-based and groundwater-based water facilities. In addition, change the funding sources related to the transfer as follows:

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- \$4,755,882 from the Wastewater Capital Stabilization Reserve (R0242) to the Water Capital Stabilization Reserve (R0241); and
- \$2,594,118 from the South Peel Wastewater Development Charge Reserve (R3515) to the South Peel Water Development Charge Reserve (R3520).

6. 2022 Operating Performance

A report titled “2022 Operating Financial Triannual Performance Report – Year End (Unaudited)” is being provided to Regional Council on April 27, 2023. This supports Regional Council in their decision making on the Region’s operating program.

CONCLUSION

Overall, capital operations largely progressed as planned in 2022 through effective management. The 2022 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 2022 Capital Spending (January – December)
- Appendix II Capital Program 2022 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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