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**REPORT TITLE:** 2024 Capital Financial Triannual Performance Report – August 31, 2024

**FROM:** Davinder Valeri, Chief Financial Officer and Commissioner of Corporate Services

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## **RECOMMENDATIONS**

- 1. That QEW Widening Impacts on the Wastewater System (Project 18-2394) be increased in the amount of \$1,300,000, to account for the design and construction of the existing watermain and sanitary sewer upgrades funded from the Utility Rate Supported Capital Reserve for a revised total project cost of \$9,300,000; and**
- 2. That 675mm Sanitary Sewer on Humber Station Road (Project 24-2194) be increased by \$10,000,000, to support the additional scope of work required to support growth in the Town of Caledon, funded from the Wastewater Development Charges Reserve for a revised total project cost of \$11,797,628; and**
- 3. That 1200mm Sanitary Trunk Sewer - Future Street (Countryside Villages) project (Project 24-2152) be established in the amount of \$21,000,000 to support area development, funded from the Wastewater Development Charges Reserve; and**
- 4. That \$1,195,000 be transferred from the Utility Rate Supported Capital Reserve to the Wastewater Development Charges Reserve.**

## **REPORT HIGHLIGHTS**

- The 2024 Capital Budget included approval of \$1.9 billion in capital projects for Regionally Controlled programs including \$1.3 billion in growth-related and \$0.6 billion for the Peel Regional Police.
- In the initial eight months of 2024, \$630.3 million was spent, surpassing the previous five years' average of \$366.8 million (i.e.72 per cent higher) as at August 31.
- As at August 31, 2024, Peel has Capital Work in Progress totaling \$7.0 billion (1,729 active capital projects).
- Regionally Controlled Programs:
  - Capital work completed in the first eight months of 2024 totaled \$546.9 million, with \$248.4 million spent in Tax Supported Services and \$298.5 million in Utility Rate Supported Services.
  - 71 per cent of Regionally Controlled services of the capital work was carried out by the Public Works team which supports the achievement of the Province's housing target and the state of good repair of Peel's public works assets.
  - 91 per cent of the capital work progressed on schedule, five per cent lower than the past five years' average at the end of August (96 per cent).

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- 21 of the top 25 largest capital projects, by remaining gross budget, were on schedule with four Water and Wastewater projects being delayed.
  - Additional capital funding is required for the QEW Widening Impacts on the Wastewater System and the 675mm Sanitary Sewer on Humber Station Road projects.
  - This report includes a timely request for the establishment of a new capital project for 1200mm Sanitary Trunk Sewer - Future Street (Countryside Villages) to support area development.
  - A transfer from the Utility Rate Supported Capital Reserve to the Wastewater Development Charges Reserve for \$1,195,000 is required.
  - A companion operating performance report for 2024 has been provided to Regional Council to provide analytics on operations.
  - Projected year end results are based on actions that are consistent with the principles approved by Council to maintain Regional services through the transition period.
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## DISCUSSION

### 1. Background

The Budget Policy requires that staff report the status of capital work at a minimum of twice a year to manage financial performance to ensure the long-term financial sustainability of Regional services. This report provides the second update for 2024 on the financial results of the Capital Program based on information as at August 31, 2024.

Prior to the approval of the 2024 budget, the Capital Program began with an opening balance of \$5.1 billion (1,563 projects) for Capital Work in Progress from prior years.

#### 2024 Capital Budget

On December 7, 2023, Regional Council approved \$2.5 billion (245 projects) capital investment in Peel's infrastructure through the 2024 Budget. The approved 2024 Capital Budget includes \$0.6 billion to the Regionally Financed External Organizations: Peel Regional Police, Ontario Provincial Police, and three Conservation Authorities.

### 2. Overview of 2024 Capital Program

Capital work represents a key component of the Region's service delivery. 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 were 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, known as the Peel Community Housing Development Program. The Region actively monitored the changes to these plans and adjusts the capital plan where it was required. A significant portion of the Region's capital work consisted of large projects that take five to eight years to complete from start to finish.

As summarized in Table 1 below immediately following the approval of the 2024 Budget, Capital work had an opening balance of \$7.6 billion (1,808 active projects) which consists of

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projects that are Regionally Controlled (\$6.1 billion), and those managed by external organizations (\$1.5 billion) such as Peel Regional Police (PRP), Ontario Provincial Police (OPP) and Conservation Authorities.

As at August 31, 2024, the capital work had 1,729 active capital projects with a gross remaining budget of \$7.0 billion (\$5.6 billion and 1,546 capital projects for Regionally Controlled) after year-to-date capital spending of \$0.5 billion. During the first eight months of 2024, the total capital projects decreased from 1,808 to 1,729 mainly due to projects being closed.

Table 1: Total Capital Program as at August 31, 2024

2024 CAPITAL WORK	Regionally Controlled Programs (\$Billions)	Regionally Financed External Organizations (\$Billions)	TOTAL (\$Billions)	Total Number of Projects
Opening Balance as at January 1, 2024	4.2	0.9	5.1	1,563
Capital Work Added through 2024 Approved Budget	1.9	0.6	2.5	245
<b>Opening Balance following 2024 Budget</b>	<b>6.1</b>	<b>1.5</b>	<b>7.6</b>	<b>1,808</b>
Capital Work completed in 2024 <sup>1</sup>	(0.5)	(0.1)	(0.6)	
<b>Balance as at August 31, 2024</b>	<b>5.6</b>	<b>1.4</b>	<b>7.0</b>	<b>1,729</b> <sup>2</sup>

<sup>1</sup> Refer to Appendix I for details.

<sup>2</sup> Total capital projects increased mainly due to projects being closed.

### 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 at a minimum of twice a year and report to Regional Council on the status of the capital work in progress including significant variances.

#### a) 2024 Capital Spending

Capital spending for both Tax and Utility Rate Supported services (including Regionally Controlled and External Organizations) in the first eight months of 2024 amounted to \$630.3 million (\$546.9 million for Regionally Controlled, \$83.4 million for external organizations), with \$248.4 million spent in Tax Supported Services and \$298.5 million spent in Utility Rate Supported Services. Highlights are provided in Appendix I. This level of spending is 72 per cent higher than the past five years' average of \$366.8 million as at August 31<sup>th</sup>.

\$386.3 million of the capital work (71 per cent of Regionally Controlled services) was carried out by the Public Works team which supports the achievement of the Province's housing target and the state of good repair of Peel's public works assets.

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### b) Progress of Regionally Controlled Capital Program

The progress of Regionally Controlled capital projects, comprising 1,546 out of the total of 1,729 Region of Peel projects, was actively monitored and measured. Of the 2024 opening balance of Regionally Controlled capital work of \$5.1 billion, 91 per cent of the capital work progressed on schedule which is five per cent higher than the past five years' average of 96 per cent at year end. Nine per cent of capital projects (\$511.8 million) are either on hold and/or due to Management decisions or unforeseen circumstances. In addition, some capital projects have not incurred spending as they are at an early stage.

Of the total 1,546 Regionally Controlled capital projects, 104 projects were completed during the first eight months of 2024 with \$12.5 million unspent funds returned to reserves. As of August 31, 2024, the Regionally Controlled Capital Program had a closing balance of \$5.6 billion. Summaries are provided in Appendix II.

### c) Progress of the 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 focus on the progress and report to Council on the 25 largest capital projects based on the gross remaining budget value. In magnitude, the top 25 active capital projects represent 42 per cent of the remaining budget of Regionally Controlled capital projects and two per cent of the total number of projects.

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

- The total gross budget is \$2.8 billion with a remaining budget of \$2.3 billion.
- By the end of August 2024, the cumulative spending amounted to \$465.3 million or 17 per cent of the gross approved budget.

As of August 31, 2024, 21 out of the 25 capital projects are on track, and the following four capital projects have been delayed:

#### Lakeshore Road West Sanitary Trunk Sewer

The project has been delayed due to the additional time required for a redesign to accommodate additional tunnelling requirements through Port Credit. The design is nearing 100 per cent, and preparations for a tender to be released in November 2024 are being made.

#### Clarkson Water Resource Recovery Facility (WRRF) Biosolids Expansion

Project tender documents are to be prepared to accommodate future process changes with biosolids management. The design updates are being completed with a planned tender for construction to be issued in late 2024.

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### Victoria Yard Replacement

The site planning and preliminary design was initiated. A detailed design was planned to be completed by the end of 2024, however it has since been paused due to the Provincial Efficiency Review. The site plan approval and construction tender that was expected by the end of April 30, 2025 will be delayed due to the delay.

### Clarkson Water Resource Recovery

A more thorough review of the Regionwide Biosolids Strategy is underway. The Request for Proposal development for engineering services will follow this strategy and is anticipated to be issued late 2024.

Of the 21 projects that are on track; 13 projects are in the initiation and design stages, and the remaining eight are in construction and procurement stage.

As detailed in the top 25 projects, 23 of 25 capital projects are on budget, with the two following projects having budget shortfalls:

### Zone 6 Transmission Watermain - Construction of Transmission and Distribution Watermains on Heart Lake Road in Brampton

Phase 3 of this project (Heart Lake Road from Old School Road to King Street and along a mid-block easement to the future Victoria Reservoir site) is currently in the design stage. The Ministry of Transportation (MTO) announced that highway 413 will go through the original project area that was previously to be completed open cut (i.e. by opening up roads/surfaces). Phase 3 is currently in the process of altering the methodology from open cut to tunneling the portion of the scope affected.

Construction has been delayed until the middle of 2025 to accommodate the required revisions for external coordination with Highway Great Toronto Area (GTA) West. The overall schedule is not being impacted.

If the redesign is not carried out, the risks are that the proposed Ministry of Transportation (MTO) highway will cross the new watermain. In the redesign, provisions will be required to minimize the impacts to Peel infrastructure.

An additional funding of \$16.0 million has been requested in the 2025 budget submission, to cover the change in methodology.

### 750-mm Watermain, Main Street - Construction of a 750-mm water main on Centre Street from Williams Parkway to John Street in Brampton

The project is in the design phase and expected to be tendering in early 2025. State of good repair (SOGR) works must be completed prior to these related works commencing. Additional scope related to the Queen Street Housing Enabling Infrastructure Program has been added, i.e. the new capital delivery model the program implemented by engaging an external contractor to accelerate the infrastructure to meet the housing target. This addition to the scope is not expected

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to delay the project. This project requires coordination with other capital projects in Brampton and the estimated duration of construction is 2.5 years.

An additional funding of \$75.2 million has been requested in the 2025 budget submission, to cover the additional scope.

### **4. Increase Request of \$1,300,000**

The Ontario Ministry of Transportation's Queen Elizabeth Way (QEW) highway improvements and structural rehabilitation project at the Dixie Road interchange will impact the Region's existing watermains and sanitary sewers.

As part of the impact to the Region's Infrastructure, the Region requested that the Ministry agree to design and construct such upgrades as part of their project, at the Region's cost, to be paid under the joint agreement dated December 20th, 2021. A primary concern was that the sanitary sewer replacements were in poor soil conditions along Haig Boulevard in the City of Mississauga. As this concern, amongst others, was not included in the original budget and tender price, a budget increase is required. The project is anticipated to be completed by the end of this year.

As a result, staff is seeking approval from Council to increase the existing budget for the QEW Widening Impacts on the Wastewater System (Project 18-2394) by \$1,300,000, for a total project cost of \$9,300,000. This increase will be funded by the Utility Rate Supported Capital Reserve.

### **5. Increase Request of \$10,000,000**

The expansion of water and wastewater capacity at Humber Station is critical to support growth in Caledon. This includes several development-related projects such as 24-1170 (750mm Water Main Countryside), 24-1171/24-2176 (525 mm Sanitary Sewer Countryside), 24-2194 (675mm Sanitary Sewer Humber Station), and 23-2271 (Humber Station Road Sanitary Trunk Sewer).

The additional scope of work is required to extend the sanitary sewer construction on Humber Station Road by an additional 400m north of Healey Road. The 400m was added as there was an opportunity to avoid an additional shaft within Toronto and Region Conservation Authority (TRCA) regulated lands by extending the sewer north of Healey Road. This would not only save the Region additional costs due to construction, but also accelerate the sewer construction along Humber Station Road by streamlining conservation approvals needed due to less disturbance within regulated lands.

As a result, staff is seeking approval from Council to increase the existing budget for the 675mm Sanitary Sewer on Humber Station Road (Project 24-2194) by \$10,000,000 for a total project cost of \$11,797,628. This increase will be funded by the Wastewater Development Charges Reserve.

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### **6. New Request of \$21,000,000**

The expansion of the wastewater drainage shed north of the Mayfield/Tullamore area requires additional sewer capacity. To accommodate this, a 1200mm sanitary trunk sewer must be constructed along a future street west of Airport Road, extending approximately 1,100 meters northwest of Countryside Drive. This project is essential to support growth in the Town of Caledon. The estimated cost for constructing this 1200mm sanitary trunk sewer is \$21,000,000.

As the developer will not commit to starting construction until Council has fully approved the project, any delay may hinder the infrastructure required to meet growth and housing targets.

Therefore, staff is seeking approval from Council to establish a new capital project (Project #24-2152) with a total budget of \$21,000,000. This request will be funded from the Wastewater Development Charges Reserve.

### **7. Financing Source Transfer Request of \$1,195,000**

On July 11, 2024, Regional Council approved that the G.E. Booth Wastewater Treatment Plant – Plant 2 Blower Replacement grant received in the amount of \$2,390,000 be returned to the Utility Rate Supported Capital Reserve, via the report titled “2024 Capital Financial Triannual Performance Report as at April 30, 2024”.

As the project was initially funded equally between the two reserves, staff recognized their oversight in seeking Council’s approval to return the funds only to the Utility Rate Supported Capital Reserve. To rectify this situation, 50 per cent of the grant needs to be returned to the Wastewater Development Charges Reserve. As a result, staff are requesting to transfer \$1,195,000 from the Utility Rate Supported Capital Reserve to the Wastewater Development Charges Reserve.

### **8. 2025 Outlook**

The change in the Non-residential Construction Price Index (NRCPI) which mirrors the change in the price of capital inputs, continued to slow in 2024, after registering a record high in 2022. While the rate of increase in the average price of capital inputs has slowed, it has not fallen and therefore capital budget costs will remain elevated. The change in capital input prices is expected to continue to slow but remain elevated in the short to medium-term.

As presented through June 13, 2024, report of the Chief Financial Officer and Commissioner of Corporate Services titled “Approach to the Development of the 2025 Budget, 4.0 per cent for inflation will be applied to the 2025 capital budget and 3.0 per cent for the remaining nine years of the capital plan.

Staff continue to ensure that the state of good repair of Peel’s aging infrastructure remains a high priority. The forecasted increases reflect infrastructure levies to fund the replacement of existing infrastructure as it reaches the end of its life cycle. Through the 2025 Budget process, infrastructure levies for both tax and utility were required for 2025 and beyond to fund the shortfalls in the capital reserves forecasted over the next 20 years. These capital reserve shortfalls will add significant risk to Peel’s capital program in the short and medium terms.

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Staff will continue to develop strategies to ensure that the budget remains flexible to mitigate any risks involved with an uncertain external environment and positioned to adapt to any of several possible outcomes.

### 9. 2024 Operating Performance

A report titled “2024 Operating Financial Triannual Performance Report – August 31, 2024” is listed on the October 24, 2024 Regional Council agenda. This supports Regional Council in their decision making on the Region’s operating program.

### BILL 112 RISKS AND IMPLICATIONS

On June 8, 2023, the Province passed Bill 112, the Hazel McCallion Act (Peel Dissolution), 2023, which was initially intended to dissolve the Region of Peel and provided for a Transition Board to make recommendations to the province on how to implement the restructuring. On June 6, 2024, Bill 185 took effect, amending Bill 112 and reversing the decision to dissolve the Region of Peel. Bill 185 changed the name of the legislation to the Hazel McCallion Act (Peel Restructuring), 2023 and recalibrated the Transition Board’s mandate to focus on making recommendations on land use planning; water and wastewater; storm water; highways; and waste management. Final details of the Transition Board’s recommendations, any associated provincial decision and impacts on Peel services are not known at this time and will be addressed in future reporting to Regional Council.

### CONCLUSION

In total, \$630.3 million was spent during the initial eight months of 2024. Capital program spending surpassed the previous five years' average of \$366.8 million (i.e.72 per cent higher) as of August 31. The 2024 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 - 2024 Capital Spending (January – August)
- Appendix II - Capital Program 2024 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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