

For Information

DATE: May 10, 2013

REPORT TITLE: **2012 CAPITAL PERFORMANCE AND IMPACT ON RESERVES AND RESERVE FUNDS**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

**OBJECTIVE**

To provide Regional Council with a status update on the 2012 Capital Program and the 2012 year end Capital Reserve and Reserve Fund balances.

**REPORT HIGHLIGHTS**

- Regional Council entrusted staff to execute a \$2.7 billion capital program consisting of \$1.8 billion in Capital Work in Progress and \$856 million in new capital projects
- 93 per cent of the total 2012 planned capital work was successfully executed or managed
- Management's primary focus is on oversight of the top 25 projects which make up to 40 per cent of the budget
- Improvements to the capital management process supported the delivery of Council's priority capital work within the constraints of available cash and approved debt plan
- Oversight of capital spending supports the Region of Peel's financial flexibility

**DISCUSSION****1. Background**

In previous years, the capital performance has been reported along with the operating results in an overall Triannual Financial Performance report to Council. Since the capital program represents a key component of the Region of Peel's service delivery and given the current focus on the Development Charge funded capital projects, a separate report is warranted. The "2012 Capital Performance and Impact on Reserves and Reserve Funds" report provides Regional Council with a status update of the capital work undertaken in 2012 and the impact of the capital work on the reserves and reserve funds. For the financial results of Peel's 2012 operations, a companion report titled, "2012 Triannual Financial Performance Report – Year End Operating Results (Unaudited)" is provided to Regional Council on May 23, 2013.

The 2012 Capital Program of \$2.7 billion was developed to support Council's service priorities. The Capital Program included previously approved capital work in progress of \$1.8 billion and the approved 2012 Capital Budget of \$856 million. Approximately two-thirds of the 2012 Capital Work plan consists of previously approved capital work. This is

May 10, 2013

## 2012 CAPITAL PERFORMANCE AND IMPACT ON RESERVES AND RESERVE FUNDS

due to the fact that the majority of the Region of Peel's capital work consists of large projects that take upwards of 5 to 8 years to complete from start to finish.

The 2012 Capital Program included capital projects to:

- Create new roads such as the Bolton Arterial By-Pass
- Widen roads to better facilitate the movement of goods and services; for example the widening of Queen Street West
- Maintain road surfaces
- Improve the environment through the development of community recycling centres (CRC) such as the Heartlake CRC
- Support the most vulnerable residents through funds for the future construction of affordable housing units e.g. Legion, Creditview/Eglington
- Support the health of the community through funds for new ambulance facilities e.g. Fernforest Reporting Station
- Provide clean drinking water by investing in the development of a transmission system, plant facilities and distribution systems
- Support community health through the development of the primary wastewater collection system

### 2. 2012 Capital Performance

As mentioned earlier, the 2012 Capital Program included both new capital projects approved in the 2012 Capital Budget and capital projects approved in previous budgets. The capital work plan was developed to execute Council's strategic priorities including those identified in the 2011 – 2014 Term of Council Priorities.

Progress on the capital program can be measured in a number of ways. Two of the ways it is measured is by tracking the capital projects through the various stages of completion or by tracking the amount of cash that is spent on the capital projects.

Although the number of stages of capital work may vary from one project to the next depending on the size and complexity, they all generally go through planning, design, procurement, pre-engineering, construction and completion. The amount of time to execute a project from start to finish also varies but it roughly takes about 5 to 8 years with the bulk of the cash expenditures happening after the design and procurement phases.

#### a) Update on the Progress of the 2012 Capital Program

The progress of the 2012 Capital Program was measured by assessing the amount of capital work that was completed, progressing on track, deferred and requiring attention.

- Completed capital work describes capital projects that have been finished in the year and includes capital projects approved in previous budgets.
- Capital work progressing on track describes capital projects that are moving through the various project stages as forecasted.
- Deferred capital work includes capital projects where staff have made an active decision to put a capital project on hold due to various reasons including assessing the priorities to see if the project should move forward to the next stage.
- Projects requiring attention describe capital projects that are experiencing unforeseen complications that require increased attention

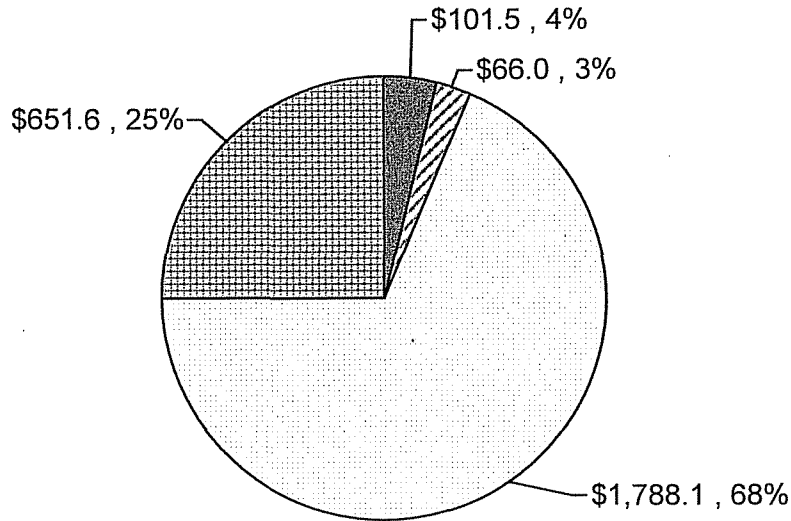
May 10, 2013

**2012 CAPITAL PERFORMANCE AND IMPACT ON RESERVES AND RESERVE FUNDS**

Figure 1 below provides a high level overview of the progress of capital work in 2012 for Regionally Controlled programs.

Figure 1: Progress of the Region of Peel 2012 Capital Program

Regionally Controlled Programs - \$2.6 billion  
 Capital Program Progress  
 January 1 to December 31, 2012  
 (in millions)



Requires Attention
  Deferred
  On Track
  Completed

As shown in Figure 1 above, 96 per cent of the 2012 Capital Program progressed as planned. This work included capital projects that were Completed (25 per cent or \$651.6 million), On Track (68 per cent or \$1,788.1 million) and Deferred (3 per cent or \$66.0 million). The remaining 4 per cent or \$101.5 million of capital work require additional attention to manage unforeseen complications.

**b) Status of the Top 25 Capital Projects**

In order to efficiently manage a capital program of \$2.6 billion, staff mitigated risks by actively managing its largest capital projects based on gross budget value. In fact, the top 25 capital projects, based on gross budget value, represent just over 2 per cent of the total number of active capital projects (1,243 projects), but represent 40 per cent of the total value of active capitals projects.

By the end of December 31, 2012, the top 25 projects had implementation plans in place. There were a total of eight capital projects in the construction phase with 16 of the remaining projects in the planning, design and procurement stages. One capital project in Public

May 10, 2013

**2012 CAPITAL PERFORMANCE AND IMPACT ON RESERVES AND RESERVE FUNDS**

Works – Operations Support for acquiring a new utility billing technology was actively deferred as the Utility Rate structure was being reviewed.

Below are some of the highlights of the largest active capital projects in 2012. For additional details, please see Appendix I (as attached) which provides the status of the top 25 capital projects broken down between tax and utility rate programs.

- Affordable housing project in the procurement stage
- Detailed design of the Bolton Arterial Road was completed
- Heartlake Commodity Recycling Centre project experienced site plan complications; completion is expected in 2014
- Hanlan Feedermain project will be tendered in the summer with construction anticipated in late summer or early fall of 2013
- Lakeview Water Treatment plant progressing well to service in 2014
- Clarkson Wastewater Treatment plant progressing well
- Substantial completion expected in 2013 for the East Peel Water Supply facilities and achieved at the Lorne Park Water Treatment in 2012

**3. Impact of 2012 Capital Work on Reserves and Reserve Funds**

As capital work is implemented, it is important to keep in mind the impact on the Region's capital reserves and reserve funds. Council will recall that as per the Long Term Financial Planning Strategy presented on April 11, 2013, Financial Flexibility is one of the three financial pillars of Peel's financial condition. In order to have financial flexibility, appropriate levels of cash need to be maintained. The majority of Peel's cash resides in its reserves and reserve funds with debt currently being used as a tool to manage cash levels. Pro-active phasing of the capital projects was one of the methods utilized by staff to execute the 2012 Capital Program within the constraints of the cash levels of the reserves, reserve funds and the debt plan. As major projects move from one phase to the next, staff will continue to consider Peel's current financial condition prior to proceeding.

**a) 2012 Capital Spending**

For the twelve months ending December 31, 2012 total capital spending for both Tax and Utility Rate Supported Programs was \$663 million, representing 86 per cent of the budgeted 2012 cash flow of \$770 million as illustrated in Table 1 below:

Table 1: Table of 2012 Capital Cash Expenditures compared to Budget

\$ Millions	2012 Gross Capital Spending Budget	2012 Actual Spending	Variance Under/(Over)	Variance to Budget
	\$	\$	\$	%
Tax Supported	368	293	75	20.0
Utility Rate Supported	402	370	32	8.0
<b>Total</b>	<b>770</b>	<b>663</b>	<b>107</b>	<b>14.0</b>

The \$663 million was invested in various service areas such as expansion and maintenance of roads, water and wastewater infrastructure, new ambulance facilities, replacement and maintenance of the ambulance fleet and communication equipment.

May 10, 2013

**2012 CAPITAL PERFORMANCE AND IMPACT ON RESERVES AND RESERVE FUNDS**

The \$75 million variance from target for Tax Supported capital was largely the result of decisions made by management to defer some project work such as the affordable housing building and the Water Billing System.

The \$32 million variance to target for Utility Rate supported capital was largely due to the deferral of the Meadowvale North Transmission and the West Trunk Sewer projects. These decisions help to support Peel's financial flexibility.

**b) Internal Capital Reserves**

Implementation of the 2012 Capital Program had no material impact on the status of reserves as reported to Regional Council on November 22, 2012, in the report titled "Status and Update of Reserves and Reserve Funds", as the year end results were very close to the forecasts used for the report. Staff will be providing Council with an update on the reserves and reserve funds prior to the discussion of the 2014 budget.

Overall, Peel's capital reserves are improving. Through Council's approval of increasing the reserve contributions, effectively managing the approved capital budget and reducing the capital plan, the Region of Peel is able to maintain its financial sustainability.

**c) Development Charges**

For the twelve month period ended December 31, 2012, the Region of Peel collected \$181 million in Development Charge (DC) revenue and spent \$279 million on DC eligible growth projects (see Table 2 below for more details). This resulted in a net draw of \$98 million from the DC Reserve Fund.

Table 2: 2012 DC Revenues and DC Expenditures

<b>\$millions</b>	<b>DC Revenues</b> \$	<b>Expenditures</b> \$	<b>Net</b> \$
2012 Estimate	145	375	(230 )
Actuals	181	279	(98 )
<b>Variance</b>	<b>36</b>	<b>96</b>	<b>132</b>

As seen in Table 2 above, a net draw of \$230 million was estimated for 2012. The lower net draw was due to a combination of higher than estimated revenues and lower than forecasted expenditures.

DC revenues for 2012 exceeded the 2012 estimate of \$145 by \$36 million. This increase was largely due to developers pushing forward development applications to avoid the new DC rate approved by Council in the update of the DC By-law.

May 10, 2013

**2012 CAPITAL PERFORMANCE AND IMPACT ON RESERVES AND RESERVE FUNDS**

For the twelve month period ended December 31, 2012, DC expenditures were \$279 million \$96 million lower than the \$375 million forecasted for 2012. This was largely due to the delay in timing of the Hanlan Feedermain project.

Overall the net draw from DC Reserve Funds was \$98 million, \$132 million lower than estimated. The net cash draw from the reserve fund was anticipated and managed through the Region's Debt Plan leaving a year end balance of \$132 million in the DC Reserve Fund.

**d) Debt**

Debt is one of the tools used to maintain financial flexibility by providing additional cash. It is issued against significant long term assets. The capital plan is managed to ensure debt levels are appropriate and in line with the Debt Policy.

In 2012, the Region issued additional debt of \$300 million in October 2012 and as at December 31, 2012 the Region's net outstanding debt totals \$1.3 billion. The debt issuance was in accordance to the Region's Debt Plan. The debt can be separated into three general categories as illustrated in Table 3 below.

Table 3: Outstanding Debt as of December 31, 2012

Type of Debt	Net Outstanding Debt (\$ millions)
DC Growth Related debt	1,023
Non-DC Growth Related debt	52
<b>Less: Sinking Fund Contributions and Principal Repayments</b>	<b>( 31)</b>
Mortgages (Peel Living)	283
<b>Total</b>	<b>1,327</b>

Based on the estimated Annual Repayment Limit amount of \$246.5 million for 2012, the Region would have an additional borrowing capacity of approximately \$2.8 billion assuming a term of 20 years at 6.0 per cent interest.

May 10, 2013

**2012 CAPITAL PERFORMANCE AND IMPACT ON RESERVES AND RESERVE FUNDS**

**CONCLUSION**

In 2012, staff executed Council's capital priorities. Through pro-active management, active deferrals and other strategies, the 2012 capital work was implemented within the constraints of the reserves, reserve funds and debt plan allowing the Region of Peel to maintain its financial flexibility.



Norma Trim  
Chief Financial Officer  
and Commissioner of Corporate Services

**Approved for Submission:**



---

D. Szwarc, Chief Administrative Officer

*For further information regarding this report, please contact Stephen VanOfwegen] at extension 4759 or via email at [stephen.vanofwegen@peelregion.ca](mailto:stephen.vanofwegen@peelregion.ca)*

*Authored By: Norman Lum*

c. Legislative Services

APPENDIX I

STATUS OF TOP 25 CAPITAL PROJECTS (BY GROSS REMAINING \$)

Phase	Program	Project	Description	Gross Revised Budget	Gross Project Actuals	Gross Remaining Budget	% of Budget Expended	Comments
<b>TAX SUPPORTED PROGRAMS</b>								
Planning	Housing	125031	Future Plans for Affordable Housing	45,022,000	-	45,022,000	0%	Project is in the procurement stage with construction expected to begin in 2013.
Planning	Operations Support	117400	Replacement of Billing Application	12,200,000	-	12,200,000	0%	Project was deferred until the completion of the utility rate structure review to ensure that a billing application would complement the utility rate structure. The billing application replacement project has started this year and is in the process of evaluating vendors.
Design	Waste Management	126509	Heartlake CRC	16,274,360	177,947	16,096,413	1%	Drawings and specifications for the new facility had multiple amendments pushing construction substantial completion to January 31, 2014.
Design	Transportation	054030	King Street Expansion 04-1280	56,459,360	5,216,296	51,243,064	9%	The Bolton Arterial Road (BAR) project is at the property acquisition and TRCA permit phase. Construction of Phase 2 expected early 2013. Tender expected winter 2013. Detailed design 100% completed at T3 2012.
Design	Transportation	054045	Queen Street West 04-1280	33,642,220	8,025,682	25,616,538	24%	Tendering is expected late 2013 to early 2014 depending on the CVC/MNR approval related to Red Side Dace (RSD). The major milestone is to complete the road widening in time for ZUM operation in 2016.
Design	Transportation	064020	Dixie Rd/Steeles 05-1496	42,334,682	17,093,464	25,241,218	40%	Construction of Phase 1 completion date is expected in 2013. In Phase 2, detailed design is to be completed March 2013 and the tendering will be on target.
Design	Transportation	064015	Wins Church/Hal Rd 05-1496	15,490,297	794,807	14,695,490	5%	Hallon-Peel Boundary Area Transportation Study (HPBATS) which was finalized and approved by Council in 2010 allowed for completion of the Detailed Design in January 2011. Further input was requested from utility companies in March 2012. It is anticipated that property acquisition will be completed in early 2013 and construction begin in 2015.
Design	Transportation	064040	Mayfld/Bram-Airport 05-1496	13,546,697	1,094,822	12,451,875	8%	Project is currently in property acquisition and dedication phase.
<b>SUBTOTAL - TAX</b>				<b>234,969,616</b>	<b>32,403,018</b>	<b>202,566,598</b>		
<b>UTILITY SUPPORTED PROGRAMS</b>								
EA	Water	091115	400mm Feedermain - Columbia Wa	26,959,385	5,516,446	21,442,939	20%	The watermain on Hwy 50 and Columbia Way (Phase B) was tendered in T1 2012 and awarded; (Phase C1) was completed at the end of 2012. Bolton downtown core (Phase C2) property acquisition is ongoing and construction will start when the three way property swap with Town of Caledon and two private landowners is settled. North Bolton elevated tank (Phase D1) and King Street Feedermain (Phase D2) are underway.
PreEngineering	Water	121345	Replacement of Watermains in Mississauga	47,102,356	4,621,944	42,480,412	10%	The program anticipates going to tender with 12-1345 Z1 (Lakeshore Blvd) in May 2013. An RFP for \$10M was released in the fall 2012 for consultant services. Anticipated construction happening in summer 2013. Various other projects are currently underway or will be tendered shortly for the remaining budget.
PreEngineering	Water	121375	Replacement of Watermains in Brampton	16,664,906	972,356	15,692,550	6%	An RFP for \$12M worth of work was released in the fall of 2012 for consultant services. Anticipated construction happening in summer 2013. Various other projects are currently underway or will be tendered shortly for the remaining budget.
Tender/Pre-Engineering	Water	101215	Alloa Transmission Main	18,978,000	1,544,924	17,433,076	8%	Contract 1(from Bovaird to Sandalwood) has been tendered and is awaiting award. Additional funds have been budgeted for contract 1, together with Wastewater tender. No expected delays for Contract 2.
Design	Wastewater	082205	West Trunk Sewer Twinning	208,499,500	2,859,575	205,639,925	1%	The Real Estate department has been assisting Public Works in securing the easements required from the property owners. The majority of the easements have now been secured for Contract 1.



APPENDIX I

STATUS OF TOP 25 CAPITAL PROJECTS (BY GROSS REMAINING \$)

Phase	Program	Project	Description	Gross Revised Budget	Gross Project Actuals	Gross Remaining Budget	% of Budget Expended	Comments
Design	Wastewater	062935	New PS Port Credit 05-1496	26,299,000	1,221,692	25,077,308	5%	Joint project with 06-2405 and 09-2406S. Site plan application was submitted to the City in September 2012. Tender in Spring 2013 and construction is to start mid-2013. Regional Council approved expropriation of a part of 501 Lakeshore Road East in June 2012.
Design	Wastewater	082235	Bolton/Brampton Trunk Sewer Twining	17,424,977	509,350	16,915,627	3%	TRCA & MNR meeting scheduled for May 2012. Contractor has prepared property acquisition plans and scheduled to complete the design by end of December 2012. Realty Service has started property and easement acquisition. Permits and approval application is in progress.
Design	Wastewater	072250	Mississauga Road Trunk Sewer	15,690,000	718,626	14,971,374	5%	Construction commenced January 2013
Procurement	Water	101121	Mississauga City Centre Feeder	32,110,000	1,093,243	31,016,757	3%	Tied with project 10-1205 (Hanlan Transmission Main)
Construction	Water	101205	Hanlan Transmission Main	153,436,104	29,320,429	124,115,675	19%	Currently scheduled to receive the 90% first design submission by end of February 2013. Tentative tendering schedule is July 2013.
Construction	Water	071936	Lakeview Water Treatment Plant	293,000,000	182,960,338	110,039,662	62%	All tenders, equipment packages and consulting assignments for the main contracts have been issued and awarded. Construction of OBM2 (Ozone, Biologically Activated Carbon and Membrane) and HLPS4 (High Lift Pumping Station) are progressing well, to service in 2014. The project is estimated to be on budget.
Construction	Wastewater	082915	Clarkson Wastewater Treatment	163,876,499	100,891,076	62,985,423	62%	Work is progressing well. Biosolid upgrades were completed October 2012. Liquids upgrades are under way with anticipated substantial completion in T2 2013. Energy Efficiency work is anticipated to be tendered in April 2013.
Construction	Water	061922	Streetsville Res& Pump 05-1496	77,230,500	39,708,835	37,521,665	51%	Contract 1 completed and under warranty period until April 2014. Contract 2 commenced construction April 2012 with expected completion in Fall 2013.
Construction	Water	071960	Airport Road Reservoir and Pum	44,195,500	9,636,699	34,558,801	22%	Contract 1 is substantially completed December 2012. Anticipated completion for Contract 2 is January 2014.
Construction	Water	041935	Tullamore Reservoir 04-68	56,586,545	39,031,995	17,554,550	69%	Expected completion in Summer 2013.
Construction	Water	061906	Lorne Park Wat Treat 05-1496	198,135,000	183,647,265	14,487,735	93%	Substantial completion for the main treatment contract was issued in 2012. The tender for Contract 3 to be issued by March/April 2013 to construct new admin area, standby power and install two new high lift pump. Construction is anticipated to start in June and completed early 2015.
Construction	Water	041205	East Peel Water Supply 04-68	124,731,016	112,537,471	12,193,545	90%	Contracts 1, 2, 3A, 4, 5, and 6 are now substantially complete. Contract 3B is scheduled for completion in May 2013. Remainder of the main (flow meter chamber to Beckett Sproule Pumping Station) needs to be chlorinated and commissioned.
<b>SUBTOTAL UTILITY SUPPORTED</b>				<b>1,520,919,288</b>	<b>716,792,265</b>	<b>804,127,023</b>		
<b>TOTAL</b>				<b>1,755,888,904</b>	<b>749,195,283</b>	<b>1,006,693,621</b>		