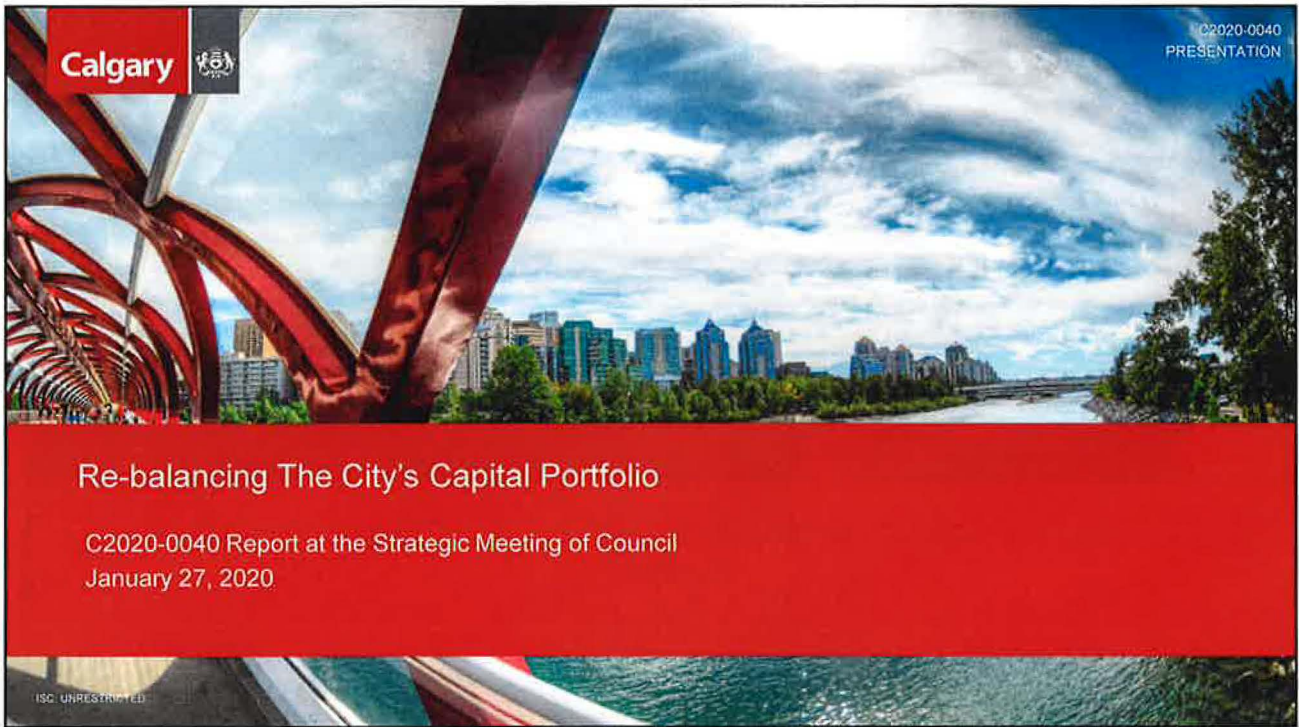



C2020-0040
PRESENTATION



Re-balancing The City's Capital Portfolio

C2020-0040 Report at the Strategic Meeting of Council
January 27, 2020

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C2020-0040
PRESENTATION

Outline of Today's Discussion

- Financial Context for Rebalancing the One Calgary Capital Budget
- Addressing the anticipated MSI funding shortfall
- City infrastructure, service delivery and quality of life outcomes
- Moving forward

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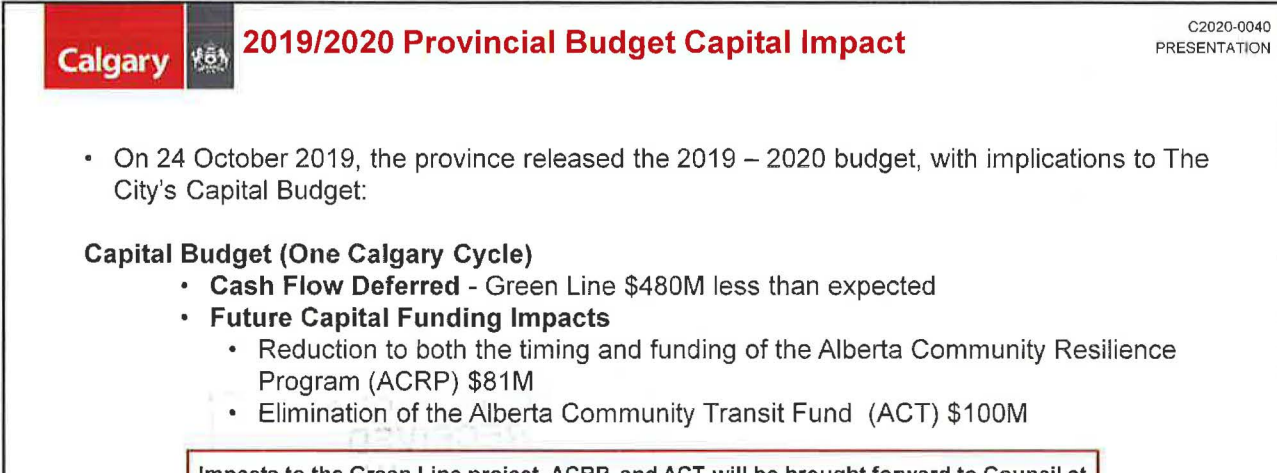
Calgary

15th Anniversary

Financial Context for Rebalancing the One Calgary Capital Budget

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Calgary

15th Anniversary

2019/2020 Provincial Budget Capital Impact

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- On 24 October 2019, the province released the 2019 – 2020 budget, with implications to The City's Capital Budget:

Capital Budget (One Calgary Cycle)

- **Cash Flow Deferred** - Green Line \$480M less than expected
- **Future Capital Funding Impacts**
 - Reduction to both the timing and funding of the Alberta Community Resilience Program (ACRP) \$81M
 - Elimination of the Alberta Community Transit Fund (ACT) \$100M

Impacts to the Green Line project, ACRP, and ACT will be brought forward to Council at a future date in 2020.

Today

Capital Funding Reduction - Municipal Sustainability Initiative estimated reduction of \$73M for the One Calgary Business Plans and Budget Cycle

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MSI Funding Change for One Calgary as a Result of the 2019/2029 Provincial Budget

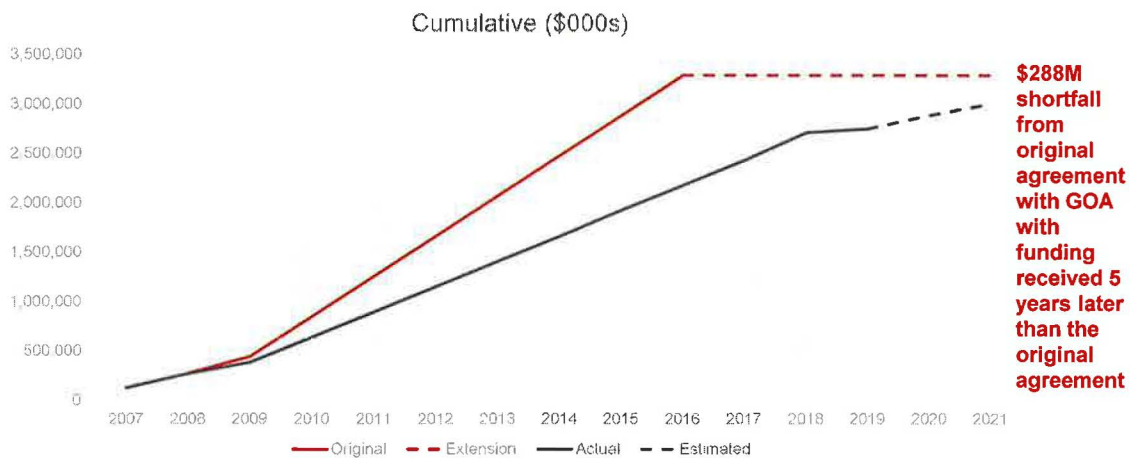
MSI Funding (millions)	2019	2020	2021	TOTAL
Estimate included in One Calgary	163	288	285	736
Estimate after Provincial Budget 2019	163	260	240	663
Estimated Funding Change	-	(28)	(45)	(73)

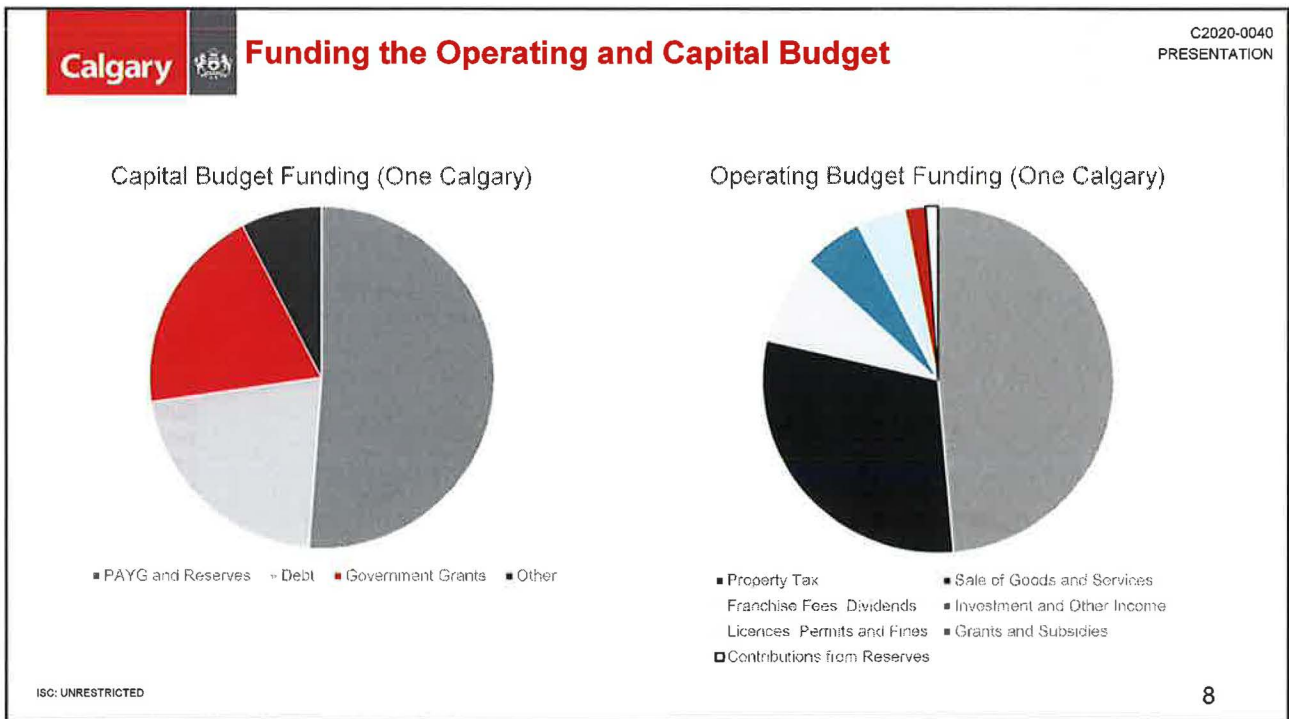
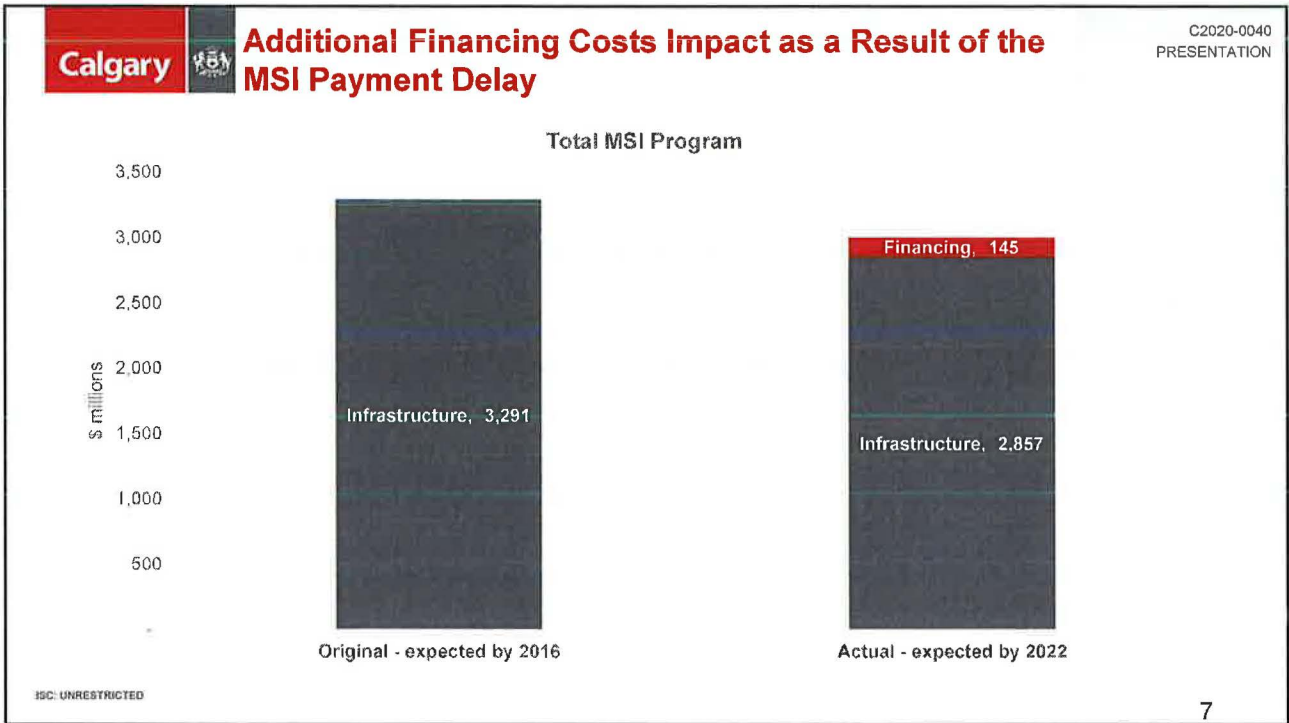
Impact

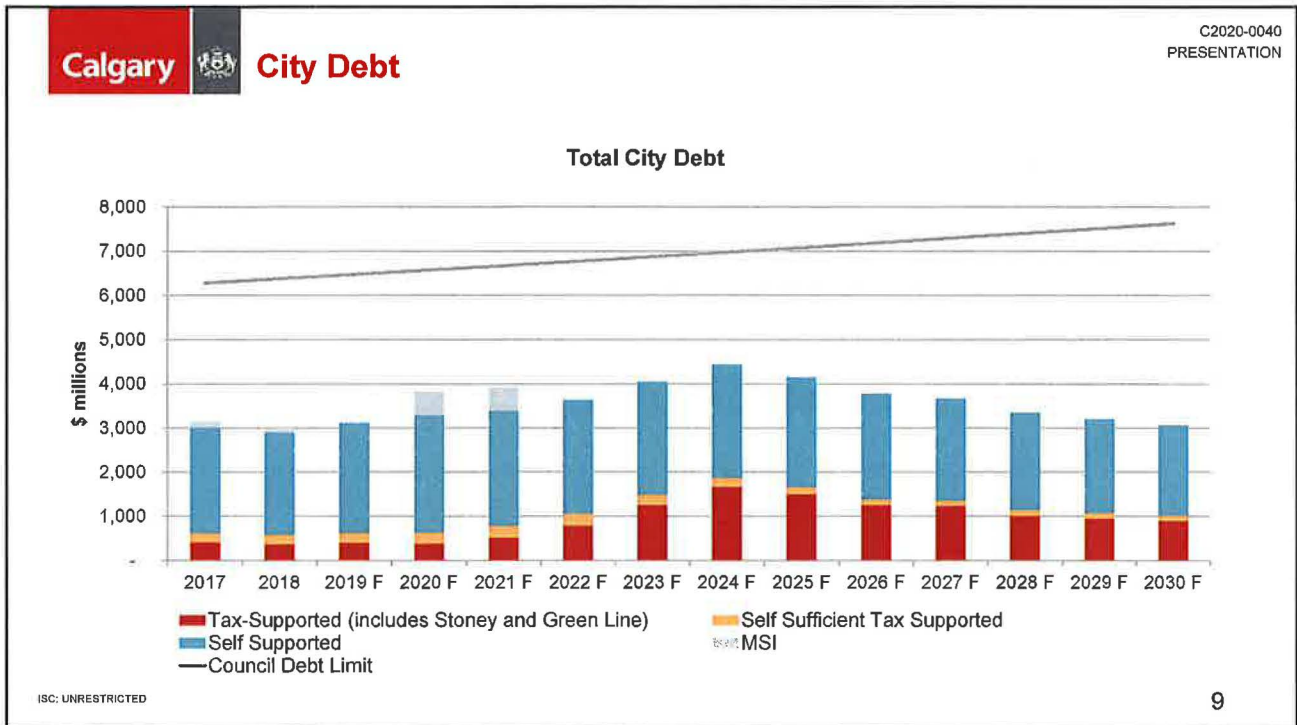
- Since the 2020/2021 MSI reduction changes the overall amount of capital funding available, The City will need to review the total approved capital budget not just the MSI funded projects as this funding source can be reallocated
- The City will continue to monitor any additional capital and operating impact when the 2020/2021 Provincial budget is released sometime this year



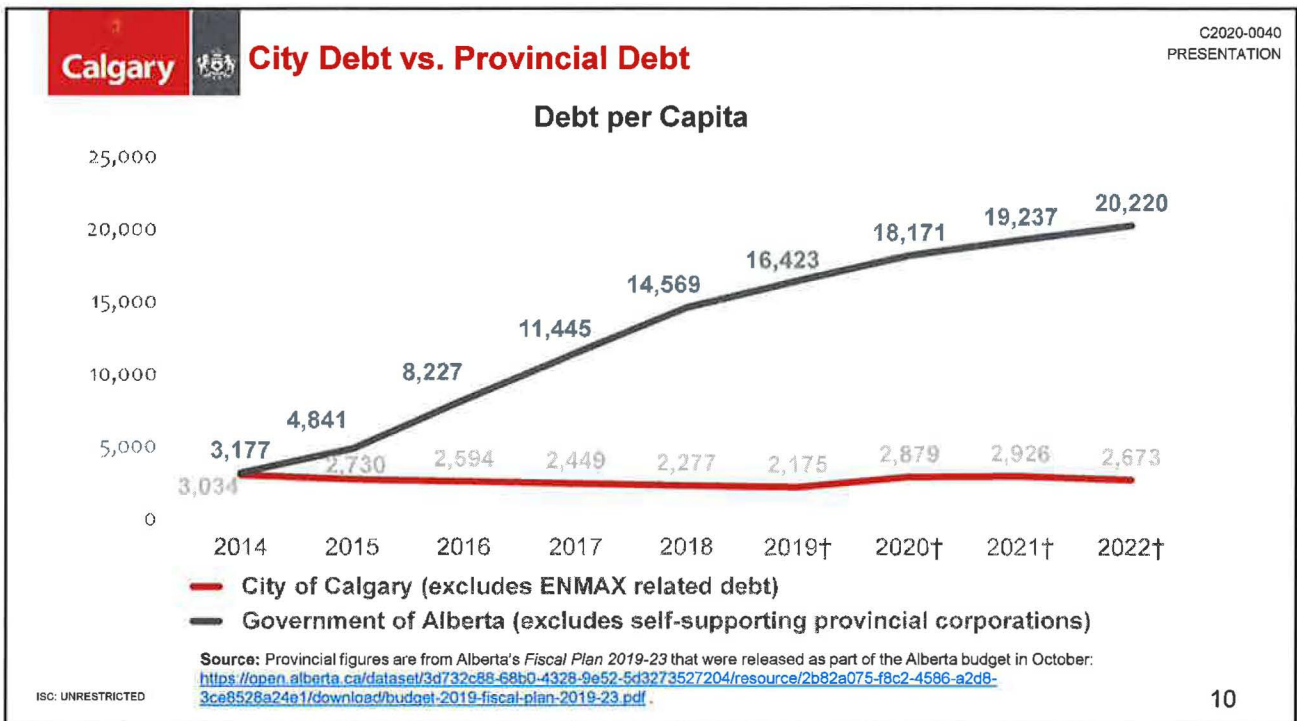
The City of Calgary – Municipal Sustainability Initiative (MSI) Overview







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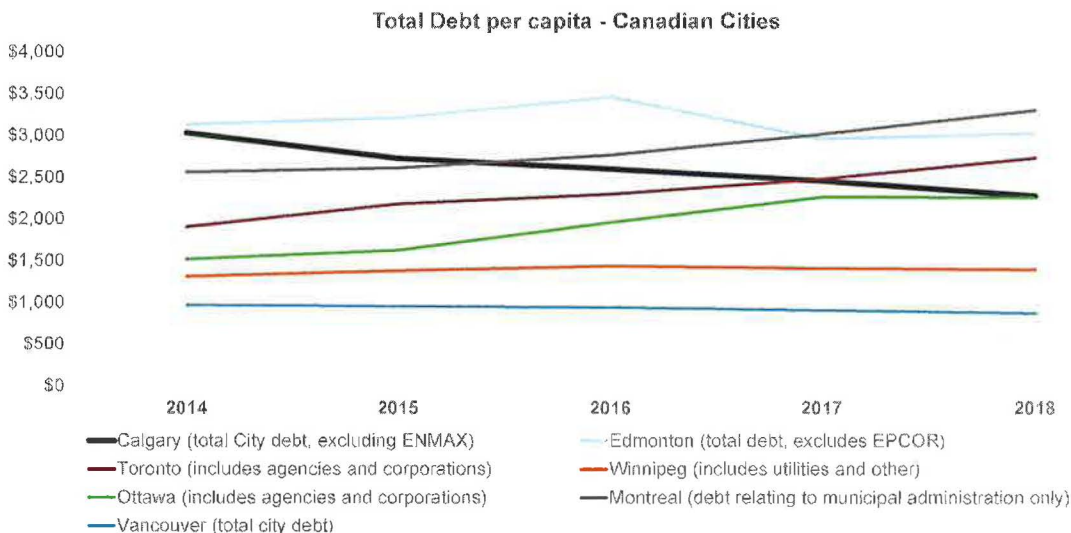
Credit Rating Comparison (City vs. Province)

Credit Rating (DBRS)								
Year	City of Calgary				Province of Alberta			
	Issuer Rating	Long-Term Debt	Commercial Paper	Trend	Issuer Rating	Long-Term Debt	Commercial Paper	Trend
2014	AA (high)	AA (high)	R-1 (high)	Stable	AAA	AAA	R-1 (high)	Stable
2015	AA (high)	AA (high)	R-1 (high)	Stable	AAA	AAA	R-1 (high)	Stable
2016	AA (high)	AA (high)	R-1 (high)	Stable	AA (high)	AA (high)	R-1 (high)	Stable
2017	AA (high)	AA (high)	R-1 (high)	Stable	AA (high)	AA (high)	R-1 (high)	Stable
2018	AA (high)	AA (high)	R-1 (high)	Stable	AA	AA	R-1 (high)	Negative
2019	AA (high)	AA (high)	R-1 (high)	Stable	AA	AA	R-1 (high)	Negative

The higher debt load that the province has assumed over the past six years has resulted in a string of credit rating downgrades. In contrast, The City has maintained its credit rating throughout the downturn, with strong budgetary performance and prudent fiscal management, particularly debt and reserve management practices cited as key contributors



City Debt per capita





Credit Rating Comparison (Large Canadian Cities)

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	The City of Calgary	The City of Edmonton	The City of Ottawa	The City of Toronto	The City of Montreal
LT Issuer S&P Rating	AA+	AA	AA	AA	AA-
Recent Actions	Affirmed (July 2019)	Downgraded from AA+ due to higher debt burden (July 2019)	Affirmed (April 2018)	Affirmed (October 2019)	Affirmed (August 2019)
Outlook	Stable	Stable	Stable	Stable	Stable

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Addressing the Anticipated MSI Funding Shortfall

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Immediate Impact: Addressing the \$73M MSI Shortfall

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Approach

Least Harm

- ✓ Minimize service impacts, impacts to residents
- ✓ Staying true to The City's Capital Investment principles
- ✓ Factors in existing citizen research
- ✓ Impact on The City's Principal Corporate Risks

Balanced

- ✓ Changes throughout the portfolio, without targeting one or a few key investments
- ✓ Review all options – Reductions, delays, reserves, debt

Options for Re-balancing the Portfolio

- Release contingency
- Estimate changes
- Project completions

- Use reserves to fund projects
- Reduce scope of investments
- Cancel investments
- Delay investments

Service impact

Considerations:

Service Level Impact | Health, Safety, Regulatory | Existing policy, Citizen Priorities, Council Directives | Attracting Investment | Economic Development Connectivity, Accessibility, Inclusion | Long-term cost and Operating cost | Corporate Strategies e.g. Downtown Strategy, Established/Actively Developed/New Communities | Citizen-Satisfaction Survey Results

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Outcomes

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Outcome Highlights

Balanced

Reserves

Refinements

Scope Changes

Consider for Next Cycle

46%
(\$33.3M)

Have service impacts

- ✓ Affordable Housing
- ✓ Fire & Emergency Response
- ✓ Police
- ✓ Public Transit
- ✓ Streets

Recommendation Composition (\$Millions)

Category	Amount (\$Millions)	Percentage
Capital Reserves	\$12.6	17%
Budget Refinements	\$27.1	37%
Scale Backs	\$15.9	22%
Consider for Next Cycle	\$17.4	24%
Total	\$73M	

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What Does this Mean for Calgarians?

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PRESENTATION

Clean water

- Service maintained

Getting Around Calgary

- Potential Transit disruptions
- 2-3 road and pathway projects deferred

Being Active & Healthy

- Colonel Walker House upgrades will not occur and capacity for Environmental Education programs will remain status quo
- Lost opportunity to enhance play surface and extend play season at Tom Brook Athletic Park

Feeling Safe

- Potential response impacts from Bylaw and Pet Ownership and Licensing services

Supporting Prosperity

- Reduced funding for Affordable Housing planning and design

Some specific items

- Refurbishment of fewer Public Transit Buses / LRVs
- Continue leasing the NE Fire Station
- Reduced Affordable Housing Pre-Development funding
- Less adaptive sidewalk replacements
- Prolong some equipment & technology for the Bylaw Education & Compliance, Emergency Management and Pet Ownership & Licensing services
- Enabling Service changes: Corporate Security, Data Analytics & Information Access, Financial Support, HR Support, Infrastructure Support, Strategic Marketing & Communications
- Defer Colonel Walker building upgrades
- Defer artificial turf installation at Tom Brook Athletic Park
- Defer pre-planning for the Forest Lawn Civic Centre

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Risk Assessment

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Principal Corporate Risk	Impact on the Risk rating?	Comments
Health and Safety	Unlikely	<ul style="list-style-type: none"> • Capital recommendations attempt to minimize this risk
Technology		
Infrastructure Management Risk	Could Impact	<ul style="list-style-type: none"> • Scaling back Lifecycle / Maintenance can <ul style="list-style-type: none"> • Decrease life expectancy of assets, requiring more operating investment now, and larger capital investment in the future • Impact service levels over time
Reputation Risk	Could Impact	<ul style="list-style-type: none"> • Service levels impacted over time (Lifecycle / Maintenance) • Older / worn out looking infrastructure


Other Risks

- Increased Operating cost over time as the remaining life of infrastructure is prolonged
- Longer outages and increased operating dollars may be required over time
- Larger Capital requirements to replace, upgrade older assets

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City Infrastructure, Service Delivery and Quality of Life

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Calgary  **Calgary Residents and Visitors are Supported by Infrastructure and Services** C2020-0040
PRESENTATION



Clean water

- Water Treatment Plants
- Equipment, Laboratories
- Pipes / Distribution
- Pump stations, vehicles
- Stormwater management



Getting Around Calgary

- Roads, Bridges
- Sidewalks
- Transit track, Busses, Trains, stations, facilities
- Traffic signals, streetlights
- Asphalt plant



Being Active & Healthy

- City owned recreation facilities
- Outdoor parks, playgrounds
- Pathways & Trails
- Grants to Civic Partners



Feeling Safe

- Police & Fire stations
- Emergency Operations Centre
- Call centres, communications technology
- Vehicles, equipment, technology



Supporting Prosperity

- Affordable Housing
- Arts & Culture spaces (e.g. Arts Commons)
- Partner grants - Convention centre, zoo, libraries

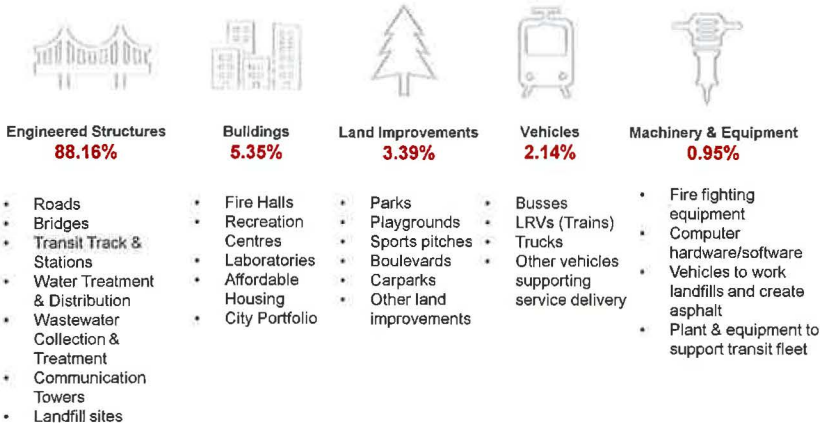
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The City of Calgary Infrastructure has Value

\$84.7 Billion

Replacement value of City owned infrastructure



Source: 2017 Infrastructure Status Report

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Intentional Infrastructure Investment

To continue to enjoy the services that the people of Calgary have come to rely on and expect requires:



Maintenance of current infrastructure



Upgrades to existing community infrastructure



New infrastructure to provide services to areas that are underserved (e.g. Green Line)



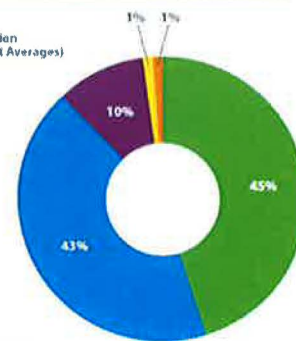
New infrastructure for growing areas of the city

How are we doing?

Current Infrastructure State

Overall Physical Condition (Based on Business Unit Averages)

- 45% Very Good
- 43% Good
- 10% Fair
- 1% Poor
- 1% Critical



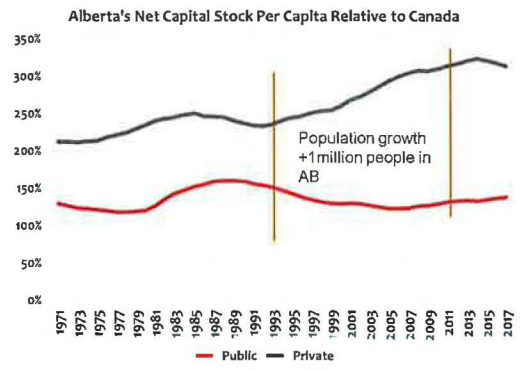
* Percentages have been rounded.

Current gap

\$5.7 Billion

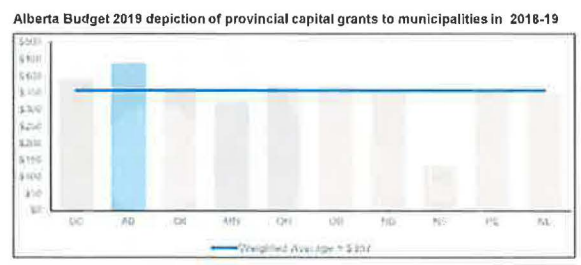
Infrastructure Gap (2017)

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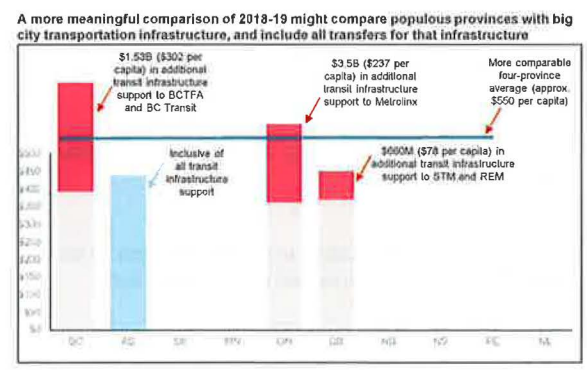



Source: Statistics Canada
 Notes: Analysis reflects a linear depreciation profile (corresponding to a constant "amount" of depreciation every year). The result is similar for the geometric (constant "rate" of depreciation every year) and hyperbolic profiles.

- Private net **capital stock** per person: 212% of the Canadian average in 1971 to 313% in 2017
- Total AB capital stock increased 40%
 - From \$21,541 per person 2009 to \$30,219 per person in 2019
- Private capital drives public investment:
 - E.g. new buildings and facilities require access (roads), utilities etc.
 - Public capital still lags behind the private sector at 138% in 2017
- **There has been no systematic over-investment in infrastructure by the public sector in Alberta**




Source: Budget 2019, MacKinnon Report






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Moving Forward

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Key Messages

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- The City is financially responsible, immediately addressing the \$73M MSI shortfall that impacts the One Calgary 2020-2023+ capital budget
- City of Calgary investment remains a priority in service areas highest-rated by Citizens including Affordable Housing, Public Transit, Streets, Police services and Traffic Flow Management
- Service level impacts are anticipated due to reductions in lifecycle maintenance of City assets because of these capital budget reductions
- The recommendations do not impact critical infrastructure, critical asset maintenance or public health and safety
- New infrastructure, regular maintenance of existing infrastructure and upgrades to aging infrastructure is critical to providing City services and supporting quality of life

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Moving forward
C2020-0040
PRESENTATION

- Address ACRP and ACT funding cancellations and any additional 2020 Provincial Budget changes
- There is established area and new community growth strategy underway in 2020, as directed by Council, that has unfunded capital requirements. This work will require financial strategies to support it
- Continue operationalizing the Calgary Resilience Strategy and Long Range Financial Plan
- Conduct citizen engagement leading up to mid-cycle adjustments
- Continue to monitor and advocate as municipal capital funding is uncertain
- Respond as needed to the new Local Government Fiscal Framework and future project criteria / reporting requirements

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Next Steps
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- Table this report to February 4th
- Public submissions will be provided to Council through the City Clerks office
- Council decision on this report is scheduled for February 4th at 1pm

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Questions



Backup Slides



- In 2015, the Alberta Community Resilience Program (ACRP) **committed \$150M** over 10 years to City of Calgary flood mitigation projects.
- October 24 Provincial budget: **ACRP is being phased out early**, with \$81M being cut but a shortfall of ~\$38 M for Calgary's projects planned and underway.
- The **City will have \$69.1M in committed funds** from ACRP with no further funding from this program.



- The Water Utility is committed to delivering the Downtown Barrier and Upper Plateau projects as scheduled.
- The funding shortfall for these 2 projects will be addressed by:
 - Stormwater rates - delaying some Community Drainage Improvement Program (CDI) projects
 - Pursuing federal funding opportunities.
- If the proposed Sunnyside Barrier had been approved for ACRP funding, the program would have provided ~\$23M.
- The proposed Bowness Barrier is the only project at risk (if the Sunnyside Barrier has priority over CDI projects and proceeds as planned). Preliminary engagement and technical work has not been completed for this project.



Asset maintenance rates

Service Area	% Maintenance Investment ¹	Avg. Annual maintenance to Current Replacement Value (CRV) ratio ²	Target maintenance to CRV ratio (2016 Canadian Infrastructure Report Card) ³
Utilities	23%	0.16 %	1-2.5%
Waste and Recycling	23%	3.19%	N/A
Transportation (Transit, Roads)	26%	0.42%	1-3%
Sport & recreation (Parks, Recreation)	49%	2.22%	1.7-2.5%
Fire services	71%	5.60%	n/a
Buildings	55%	2.72%	1.7-2.5%
Support services (Fleet, IT)	87%	12.12%	n/a
Overall	37%	0.53%	

Notes:
 Note 1: Proportion of capital re-investment (i.e., Renewal Capex) in the asset base versus the total level of capital expenditure for the asset class
 Note 2: Based on aggregated Maintenance and CRV data for business units within service line
 Note 3: From the 2016 Canadian Infrastructure Report Card
 Note 4: CIRC does not include target ratios for affordable housing assets and realistic targets may be significantly different



Composition of recommendations

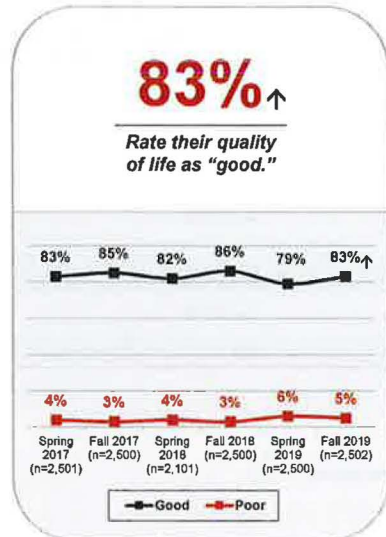
Capital Reserves Funding optimization switch to increase use of Capital Reserves	\$12.6M (17%)	Doesn't change the Capital budget. No immediate service impacts.	
Budget Reinquishments Reductions to the Capital Budget	\$60.4M (83%)	Budget Refinements Estimate changes, contingency releases, project completions	\$27.1M (37% of Total)
		Scale Back Programs / Projects that are being scaled back	\$15.9M (22% of Total)
		Consider for Next Cycle Projects that won't start this cycle and will be re-prioritized for next cycle	\$17.4M (24% of Total)

- 54% of the recommendations have low impact on service – e.g. Estimate changes, contingency releases, use of capital reserves
- Scale Backs largely affect Maintenance / Lifecycle programs, affecting service levels and service disruptions over time
- Projects not ready to be executed on will be considered for next cycle

Citizen Priority	2019-2020 Budget	Scale Backs / Consider for next cycle	Reduction as % of 2019-2023+ Budget
A City That Moves	2,115 Million	13 Million	0.61%
A Healthy & Green City	2,228 Million	5 Million	0.21%
A City of Safe & Inspiring Neighborhoods	396 Million	8.5 Million	2.15%
Enabling Services	854 Million	4 Million	0.49%
A Prosperous City	571 Million	2 Million	0.36%
A Well Run City	39 Million	1 Million	2.25%
Grand Total	6,204 Million	33 Million	0.54%



A Prosperous City



Source: Citizen Satisfaction Survey – Fall 2019

Continued spending and funding restraints lessens our ability to invest in our community, thereby impacting Quality of Life



Citizen Research & Engagement

Possible use for Feb 4?

- Existing Citizen Research was used as an input into the recommendations presented today
- Given the short turnaround time between the Provincial Budget release and today, thorough engagement would have been difficult
- Next Provincial Budget will be released in March / April 2020
- Public engagement is already being planned for Mid-Cycle Adjustments
 - Capital adjustments for Mid-Cycle to support service delivery and quality of life outcomes, along with additional changes resulting from the new Provincial Budget will be conducted in conjunction with this engagement

One Calgary is about delivering City services that support quality of life for Calgarians. Both Operating and Capital supports delivery of these services.



Asset Management

2016

City	Population 2016 Census	Current Replacement Value (CRV)	Gap	Gap per Capita	Gap as a % of CRV
Toronto	2,731,571	\$75,000,000,000	\$33,000,000,000	\$12,090.86	44%
Calgary	1,239,220	\$85,000,000,000	\$5,670,000,000	\$4,575.46	7%
Edmonton	932,546	\$17,000,000,000	\$10,500,000,000	\$11,256.50	62%
Mississauga	721,599	\$9,000,000,000	\$260,000,000	\$360.31	3%
Winnipeg	705,241	\$35,000,000,000	\$7,000,000,000	\$9,228.64	20%
Brampton	593,638	\$6,000,000,000	\$188,000,000	\$316.69	3%
London	393,167	\$20,000,000,000	\$169,000,000	\$427.30	1%

Updates where available

City	Population	Current Replacement Value (CRV)	Gap	Gap per Capita	Gap as a % of CRV
Toronto	2,956,024	\$94,000,000,000	\$30,000,000,000	\$10,148.77	32%
Calgary	1,267,344	\$85,000,000,000	\$5,670,000,000	\$4,473.92	7%
Edmonton	932,546	\$43,000,000,000	\$3,800,000,000	\$4,074.87	9%
Mississauga	721,599	\$9,000,000,000	\$260,000,000	\$360.31	3%
Winnipeg	753,700	\$35,000,000,000	\$7,000,000,000	\$9,287.51	20%
Brampton	593,638	\$6,000,000,000	\$188,000,000	\$316.69	3%
London	393,167	\$20,000,000,000	\$168,000,000	\$427.30	1%

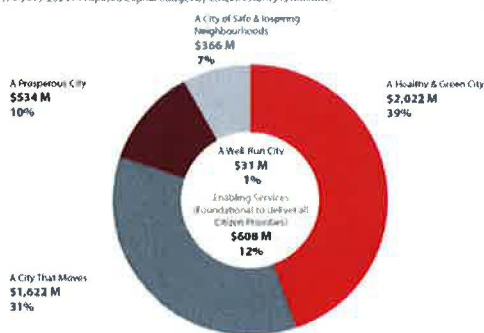
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Funding Capital Investments through One Calgary

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The 2019-2021+ Proposed Capital Budget by Citizen Priority (\$ millions)



Source: One Calgary C2018-1158

Driven by many factors:

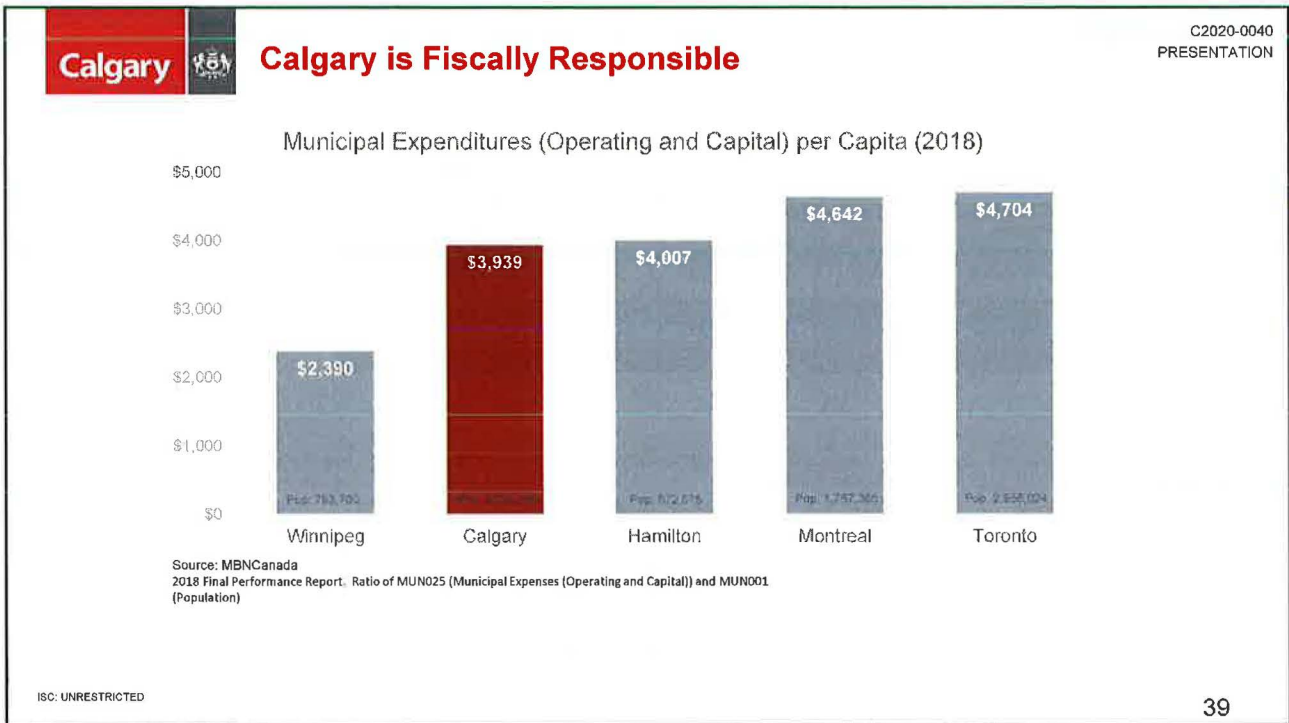
- Rates of growth in the city, both population and area
- The need to maintain and upgrade existing aging infrastructure
- Meet industry standards
- Government legislation and regulations



Recommendations driven by the **Capital Infrastructure Investment Principles**, approved by Council on 21 March 2018:

1. Support the delivery of City of Calgary services, at approved service levels
2. Promote the well-being of communities, environment, and economy
3. Build an adaptable, resilient and smart city
4. Enhance the long-term value of City assets
5. Integrate, coordinate and optimize The City's investment
6. Optimize financing and funding sources

Note: Given One Calgary funding availability, investment focused primarily on Essential Capital – i.e. legal, health & Safety



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MSI Shortfall (\$000s)

Year	2007 Sept 14 Agreement [A]	2007-2019 Transfers [B]	Funding Shortfall [C = A-B]	2020/2021 Estimates [D]	Revised Shortfall [C - D]
2007	127,492	127,495	(3)		
2008	143,204	143,168	36		
2009	173,438	114,972	58,466		
2010	406,729	254,174	152,555		
2011	406,729	256,337	150,392		
2012	406,729	256,926	149,803		
2013	406,729	254,155	152,574		
2014	406,729	252,944	153,785		
2015	406,729	264,049	142,680		
2016	406,729	251,905	154,824		
2017		254,577	(254,577)		
2018		280,992	(280,992)		
2019		38,582	(38,582)		
2020				136,141	
2021				116,219	
TOTAL	3,291,237	2,750,276	540,961	252,360	288,601

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