

Deputy City Manager's Office Report to
Strategic Meeting of Council
2020 January 27

ISC: UNRESTRICTED
C2020-0040

Re-Balancing The City's Capital Portfolio

EXECUTIVE SUMMARY

On 2019 October 24, the Government of Alberta (GoA) tabled its 2019-2020 budget. This budget included material impacts to The City in the form of reductions or eliminations of municipal capital grants and programs including:

- Reductions to the Municipal Sustainability Initiative (MSI)
- Cancellation of the Alberta Community Resilience Program (ACRP)
- Cancellation of the Alberta Community Transit Program (ACT)
- Changes to the timing of provincial contributions to Green Line

Administration has identified proposed capital changes from the One Calgary service plan and budget that take a least-harm approach to City services and residents, specifically addressing an estimated \$73 million shortfall in MSI funding. The report outlines the process, recommended changes to The City's capital budget, and risks associated with the recommended changes to meet the MSI shortfall. Later reports will be brought to Council addressing ACRP, ACT and Green Line.

This report also requests Council's approval of the 2020 Capital Budget Recast to adjust approved budget to the most recent cash flow projections. A capital continuity schedule is included, for information, that provides an overall view of capital, and builds off the schedule in the 2020 Adjustment report (C2019-1052).

KEY MESSAGES

- The City is financially responsible, immediately addressing the \$73 million 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 Service and Traffic Flow Management.
- Service level impacts are anticipated due to reductions in lifecycle maintenance of City assets because of these capital budget reductions.

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ADMINISTRATION RECOMMENDATION:

That Council:

1. Approve the proposed 2020-2023+ capital budget relinquishments in Attachment 1;
2. Approve the 2020 capital budget recast in Attachment 2;
3. Direct Administration to report back to the Standing Policy Committee on Utilities and Corporate Services regarding the impacts of the Province's Alberta Community Resilience Program (ACRP) funding reductions on The City's flood resilience plan as part of Administration's annual flood update to Council on 2020 April 15; and
4. Direct Administration to report back on next steps regarding the loss of Alberta Community Transit (ACT) funding during One Calgary mid-cycle adjustments in November 2020.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2015 November 25, the Capital Infrastructure Investment Strategy was approved by Council (C2015-0855) and on 2017 March 6, Council directed that Infrastructure Calgary update this strategy as part of the capital planning for the 2018 budget process (C2017-0214).

On 2018 March 21 (C2018-0304), Council approved the Capital Infrastructure Investment Strategy. Council renamed this document the Capital Infrastructure Investment Principles.

On 2018 November 29 (C2018-1158), as part of the 2018 November 14 Regular Meeting of Council, Council approved the 2019-2022 Service Plans and Budgets. This included the approval of a \$5.13 billion capital budget for 2019-2023+, which included \$2.05 billion of previously approved capital.

On 2019 November 12 (C2019-1052), as part of the 2020 Adjustments to the One Calgary Service Plans and Budgets, Council approved a recommendation that directed Administration to report back to Council with an update on the capital budget in response to the funding reductions from the 2019 October 24 provincial budget no later than 2020 February 4.

BACKGROUND

The City is committed to making life better every day for its citizens, communities and businesses. One Calgary brought forward plans and budgets by service, bringing together the idea that both operations and capital infrastructure investment collectively are critical to providing the services that Calgarians rely on everyday. Residents depend on access to clean drinking water and a healthy environment, the ability to move around the city safely and efficiently, access to facilities and services that promote an active and healthy lifestyle and support for a prosperous city with opportunities for everyone. The City's infrastructure investment supports the services needed to provide these things and build a great city. Critical to this is the maintenance of current investments, upgrades to existing and aging infrastructure, new infrastructure to provide needed services and investment in new and established areas of the city. Infrastructure Calgary works at an enterprise portfolio level to manage The City's

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overall investment strategy and tries to balance these needs while finding efficiencies and supporting a well-run and efficient modern municipal government.

According to the 2018 MBNCanada Performance Measure Report, Calgary's Municipal Expenses (Operating and Capital) equate to \$3,939 per capita. This compares to \$4,704 in Toronto, \$4,642 in Montreal, \$4,007 in Hamilton and \$2,390 in Winnipeg. Despite a responsible level of investment per capita in comparison to other municipalities, investment in infrastructure is increasingly difficult as The City's capital budget has experienced significant change and reduction over the past several years. MSI funding is an example of this.

The Alberta Government's Municipal Sustainability Initiative started in 2007, with the capital funding program planned to last for 10 years. It was intended to be a reliable, stable source of funding for municipal capital projects. However, its uneven, and continually reduced payouts have proven challenging for funding capital projects. Apart from the initial two years, actual MSI transfers to The City tracked below the provincial commitments each subsequent year; and in several instances, considerably below expected levels. The program has been extended multiple times to 15 years, with payments deferred or delayed by multiple provincial administrations. This has impacted capital projects tied to MSI funding. In some cases, The City used short term debt to bridge finance projects rather than delay them to match the funding. While the Province allowed the finance costs to be funded through the MSI grant, this added to The City's capital costs and diverted some MSI funding from infrastructure to financing costs.

The provincial government, in their 2019 October budget, announced that the Fiscal Framework, negotiated as part of the City Charter, was being replaced by a new Local Government Fiscal Framework after 2022, and that MSI funding for its last years (2020-21 and 2021-22) was to be reduced again, by an estimated \$73 million for The City. The recent funding changes to MSI, in a constrained capital environment, have a significant impact to The City.

Further to the \$73 million reduction (which may change when the allocation factors are updated by the province for 2020, 2021 and 2022), other impacts of the provincial budget include:

- Elimination of the Alberta Community Transit (ACT) fund. The City anticipated receiving \$100 million in funding from ACT to replace the original, 1980s-era CTrain cars. The City moved forward with a City-funded procurement for a smaller order at the end of 2019 to maintain four-car service, but lost economies of scale on this purchase.
- Closing of the Alberta Community Resilience Program (ACRP) three years early (2021 vs 2024). The City invested in flood mitigation projects that have outstanding funding requirements and will no longer be funded by ACRP, a reduction of \$81 million that was promised but not yet included in the capital budget.
- Pace-of-funding changes to the Green Line, changing The City's funding from \$555 million to \$75 million over the next four years.

Administration is still reviewing implications of the provincial funding changes over the One Calgary budget cycle. The \$73 million shortfall in MSI funding is addressed in the report, as it has an immediate impact to the capital portfolio. Further information about addressing the ACT fund, ACRP reductions and Green Line will be provided in follow up reports to Council.

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

Review and Re-Balance Process

Administration undertook a collaborative, cross-corporate process to review The City's capital investments and identify potential least-harm reductions. All Service Owners were asked to review their capital portfolios and look at capital investments that could be reduced in scope, considered for next cycle, or where budget could be released.

The Infrastructure Calgary Steering Committee (ICSC), with representatives from all major capital-intensive departments and supporting business units, reviewed all options put forward by Service Owners and took a balanced approach in considering which capital investment reductions should be proposed. Areas of consideration included:

- Least-harm to service delivery and residents, especially front-facing services
- Least-harm to key areas including economic development, ability to attract and/or leverage private investment, growth and the downtown
- Impacts to long-term asset performance, ultimately impacting service delivery
- Consideration of safety, legal and regulatory requirements
- Existing citizen research on services and investment
- Note: the four major projects (Event Centre, BMO Convention Centre, Field House, Arts Commons) were not included in the review process

Through this work, Administration identified \$73 million in portfolio changes that can be made (Attachment 1). Investment was largely maintained in service areas highest-rated by citizens for more investment: Affordable Housing, Public Transit, Streets, Police Service and Traffic Flow Management. Project investment was also maintained in areas that affect economic development and tourism (including the four major projects), private investment, the downtown and growth communities.

While every measure was taken to minimize service impacts, the recommendations include some service reductions, specifically to Annual Investment Programs (AIP). AIPs are established based on information from infrastructure asset management plans that summarize asset condition and investment requirements for effective lifecycle management and levels of service. Reductions in capital funding impacts investment in lifecycle maintenance, which affects overall asset condition, levels of service and reliability, and increases operating costs over time. A significant effort has been made to ensure critical maintenance activities and public health and safety are preserved.

The MSI shortfall can be addressed using budget relinquishments and increasing the use of capital reserves. The breakdown is as follows:

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|---|---------|-----|---|---------------------------|
| Budget Relinquishments Reductions to the Capital Budget | \$60.4M | 83% | Budget Refinements (no scope impacts) Estimate changes, contingency releases, project completions | \$27.1M (37% of Total) |
| | | | Scale Back (scope impacts) Programs / Projects that are being scaled back | \$15.9M (22% of Total) |

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| | | | Consider for Next Cycle Projects that won't start this cycle and will be re-prioritized for next cycle | \$17.4M (24% of Total) |
| Capital Reserves Funding optimization | \$12.6M | 17% | Increasing the use of capital reserves to allow more flexible funding sources to be redirected to offset the MSI shortfall. Doesn't change the capital budget. No immediate service impacts. | |

54% of the total comes from sources that pose low impact to service, including 37% from budget refinement activities that occur during an investment's lifecycle such as estimate changes and contingency releases. These budget refinements, which occur on a regular basis, would normally create capital budget savings that could be used to fund new investments or emerging needs as approved by Council. The loss of this funding limits The City's ability to make new investments. Another 17% from the use of capital reserves (through funding optimization) contributes to the 54%. Using reserve funds reduces the ability to mitigate risk and fund future projects.

46% of the total amount comes from scaling back programs or projects and considering projects for the next budget cycle. Some changes will have service impacts as described above. A full list of the proposed recommendations and impact is in Attachment 1.

2020 Capital Budget Recast

Administration has prepared a 2020 capital budget recast for Council approval (Attachment 2). The capital budget recast shifts previously approved budget between years to better reflect cash flow estimates. These timing changes are driven by actual experience to date as well as the capital re-balancing work resulting from the provincial funding shortfall.

The recast does not impact the overall capital budget or project scope but will re-align the budget by year to reflect the latest timelines and work plans. An update to Council on the overall capital budget progress will be provided as part of the 2019 year end accountability report as well as mid-cycle budget adjustments in 2020 November.

Stakeholder Engagement, Research and Communication

Considerable public consultation and research data from 2017-2019 conducted for One Calgary has been reviewed to help inform the rebalancing of the capital portfolio. This includes One Calgary Roll-Up Engagement & Research Insights that help set Council Directives, Value Characteristics, Service Targets, Service Plan Previews and most recently, the 2019 Citizen Satisfaction Survey.

As stated, investment is largely maintained in service areas highest-rated by citizens as wanting more investment: Affordable Housing, Public Transit, Streets, Police Service and Traffic Flow Management.

Citizen input on the proposed capital reductions will be received via submission to the City Clerk's Office.

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Strategic Alignment

Infrastructure Calgary helps implement The City's "Three Conversations, One Calgary" framework and follows Council's Five Strategic Plan Principles (PFC2018-0445). The program directly addresses the commitment to service-based plans and budgets and contributes to Council's Five Guidelines to Administration approved by Council on 2018 February 28: integrated service delivery, engaged leadership, trust and confidence, investment and value, and cooperative alliances (C2018-0201). Infrastructure Calgary also supports Citizen Priorities, particularly a Well-Run City and a Prosperous City.

Social, Environmental, Economic (External)

Given changes in MSI funding and an overall constrained environment, Administration identified investment priorities for the One Calgary service plan and budget cycle (2019-2023+) using corporate capital investment criteria. The capital investment criteria help guide decision making ensuring that the social, economic and environmental value of infrastructure investment is considered.

Programs or projects aligning with essential criteria are those that:

- Address legal, regulatory, health and safety requirements;
- Maintain the delivery of critical services that are necessary to health, safety or well-being of Calgarians, the environmental health of Calgary, and business continuity of good government;
- Address critical assets, meaning those most crucial for service delivery or have a high consequence in the event of failure caused by operational failures, climate impacts or other stressors; and
- Investments that reduce the delivery costs of services by reducing operational costs.

The capital budget changes proposed to meet the MSI reduction impact essential capital investments. Every effort was made to select the reductions with the least harm and impact to residents and maintain critical infrastructure and critical asset maintenance.

Financial Capacity

Current and Future Operating Budget:

Much of the capital infrastructure investment budget is allocated to Annual Investment Programs. The proposed capital reductions will impact investment in these lifecycle maintenance programs, which affects overall asset condition, levels of service, reliability, and increases operating costs over time. It is expected that operating costs will increase as the infrastructure degrades and operating adjustments may be requested over time. The specific operating impact depends on the asset class. There are no 2020 operating budget adjustments proposed in this report, however Administration is evaluating the future budget impact and will bring forward any budget changes in mid-cycle adjustments.

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Current and Future Capital Budget:

The recommended changes to the capital budget reduce the overall capital budget by \$60.4 million (\$47.7 million from the 2020 capital budget and \$12.7 in future years). As well, the capital recast moves \$226.4 million from 2020 to 2021-2023+.

A capital continuity schedule is included, for information, that provides an overall view of capital, and builds off the schedule in the 2020 Adjustment report (C2019-1052).

Risk Assessment

An impact analysis and risk review were conducted by Infrastructure Calgary, the Corporate Integrated Risk Management Team and Asset Management division in the Corporate Analytics and Innovation business unit. Administration has determined that overall, the Principal Corporate risks to watch (strategic risks that could impact The City's ability to achieve its objectives) because of these reductions and resulting budget rebalance include:

- Fairly low impact in the health and safety and technology risk as currently identified within The Corporation.
- Moderate increase in the reputation risk, due to reductions in lifecycle maintenance that may be experienced in communities over time.
- Moderate increase in the infrastructure management risk, due to the delaying or deferring of lifecycle maintenance.

The infrastructure gap quantifies unfunded investment needs to maintain the existing asset base valued at \$84.7 billion, as well as projected needs due to growth. The 2017 Infrastructure Status Report identified an existing 10-year infrastructure gap of \$5.67 billion. While this gap is a substantial decrease from previous reports, there is risk the gap will begin trending up through ongoing reductions in capital and operating funding.

Administration mitigates infrastructure risk through proactive asset management programs involving Corporate Asset Management, business units and service owners including development of asset management plans and integrated infrastructure risk management that informs the overall capital budget and plan.

Note, there is established area and new community growth strategy work underway in 2020, as directed by Council, that has unfunded capital requirements. This work will require financial strategies to support it.

The future capital environment is uncertain – revenue sharing with the province and federal infrastructure funding is still being determined under the new Local Government Fiscal Framework. This continued ambiguity of funding may place long range infrastructure investment planning at risk and cause additional year by year budget adjustment efforts. Reductions in capital investment in the short term will affect capital investment needs in the longer term as infrastructure assets require ongoing investment to maintain service and performance levels.

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REASON(S) FOR RECOMMENDATION(S):

A reduction of \$73 million in anticipated MSI capital funding has caused The City to rebalance its capital portfolio. A portfolio-level (or all-service-area) response was undertaken instead of targeting specific investments for elimination. The proposed use of capital reserves (funding optimization switches) and budget relinquishments are considered by Administration to be the least harmful and impactful to residents. Lifecycle maintenance on City assets will be reduced causing future impacts.

The recommendations do not impact critical infrastructure, critical asset maintenance or public health and safety.

ATTACHMENT(S)

1. Attachment 1 – Proposed One Calgary Capital Portfolio Changes
2. Attachment 2 – 2020 Capital Budget Recast
3. Attachment 3 – Capital Budget Continuity Schedule
4. **Attachment 4 – Public Submissions**