

## 2017 Capital Budget Recast and Other Capital and Operating Revisions

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### EXECUTIVE SUMMARY

In response to Council direction in September 2016, Administration has proceeded to recast the 2017 capital budget. The recast process provides a capital budget that is more aligned with expected cash flows, which improves insight into the status of capital projects across The Corporation.

This report requests Council's approval of the 2017 capital budget recast and other revisions to the previously approved 2015 - 2018 capital budget. It also informs Council of previously approved changes to both the capital budget and net operating budgets.

### ADMINISTRATION RECOMMENDATION(S)

That Council:

1. Approve Administration's 2017 capital budget recast, as identified in Attachment 1;
2. Approve 2017 January 1 to 2017 March 31 revisions exceeding \$200,000 to budget amounts in the current capital budget, as identified in Attachment 2;
3. Receive for information:
  - a. Attachment 3 - Capital Budget Revisions – Previously approved by Council or Administration;
  - b. Attachment 4 - Capital Budget Revision Summary;
  - c. Attachment 5 - 2016 Operating Net Budget Changes;
  - d. Attachment 6 - Council Decisions/Referrals Having Actual or Potential Future Year Budget Impacts; and
  - e. Attachment 7 - 2017 and 2018 Operating Budget Revisions Approved by Administration.

### PREVIOUS COUNCIL DIRECTION / POLICY

On 2016 November 21, Council adopted the recommendations contained in Report C2016-0863, which authorized the Deputy City Manager (Infrastructure Calgary) to continue to identify capital funding sources, including allocations and efficiencies from existing capital budgets and transfer funds to the Budget Savings Account and to provide recommendations for new, or currently unfunded investment projects.

On 2016 September 26 Council authorized administration to make expenditures related to cash flow timing changes as outlined in CFO006, updated Budget Reporting Policy CFO006 to reflect new levels of approval for capital budget cash flow timing changes and directed Administration to proceed with recasting the 2017 capital budget by early 2017 (PFC2016-0713).

On 2006 February 27, Council approved Budget Reporting Policy CFO006 which authorizes administration to approve net departmental changes up to \$200,000 (FSC2006-08).

### BACKGROUND

#### *Capital*

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Capital budget requests are made as part of the multi-year business plan and budget. As projects begin or are in progress, additional information becomes known regarding the expected timing of expenditures and confirmation of funding sources.

Infrastructure Calgary's Capital Infrastructure Investment Strategy proposed that Administration would critically examine and recast cash flows which led to the first capital budget recast in 2016. The process engaged business units across The Corporation to provide a more refined capital budget. As a result of the 2016 capital budget recast, Administration was able to increase capital investment from the annual average of \$1.2 billion by more than 25%.

The intention of the 2017 capital budget recast is to provide a capital budget that is more aligned with cash flow estimates while continuing to enhance and accelerate capital investment in 2017 and future years. The capital budget recast and other revisions to the capital budgets are required to reflect changes that have arisen relating to actual experience with project delivery, Council directions, and Administrative changes.

As part of the Action Plan Mid Cycle Adjustments report to Council on 21 November 2016, Council authorized the Deputy City Manager to continue to identify capital funding sources, including allocations and efficiencies from existing capital budgets and to transfer funds to the Budget Savings Account. During the recast process, Infrastructure Calgary worked with business units to identify additional capacity that could be reallocated to other capital projects.

Infrastructure Calgary will continue to work with the organization to identify savings and efficiencies, review and maximize funding sources and ensure The City is working with other levels of government to identify priorities for Infrastructure Investment.

### ***Operating***

This report informs of changes to the 2016 Net operating budget between 2016 April 1 and 2016 December 31 and changes to 2017 and 2018 operating budget approved by Administration.

Per Council Policy CFO006, Administration can authorize net budget changes that do not exceed \$200,000. As such, this information is shared with Council for information.

## **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

### ***Capital***

The current approved 2017 capital budget is \$2.4 billion, which comprises the original 2017 approved Action Plan capital budget of \$1.4 billion, plus adjustments from the budget revisions process in 2014-2016, and the 2016 capital budget recast (PFC2016-0713).

The capital budget recast and other revisions set out in this report have reduced the 2017 budget from \$2.4 billion to a more achievable \$2 billion. This reflects the continuation of growth in capital investment, from the \$1.6 billion in 2016 and the prior 5 year annual average of \$1.2 billion. The capital budget recast details provided in Attachment 1 result only in changes to the timing of the budgets, with no net impact to the total approved project budgets.

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The other revisions to the capital budget requiring Council approval include increases, relinquishments, and net zero transfers from 2017 January 1 to 2017 March 31. These are presented in Attachment 2. Attachment 3 summarizes changes to capital budgets approved by Council or Administration between 2016 August 1 and 2017 March 31 and is provided to Council for information.

The net impact of the capital budget revisions is an increase of \$301 million (\$445 million decrease in 2017 and a \$746 million increase in 2018-2021). Included in these revisions are transfers to the Capital Budget Savings program of \$101 million.

### ***Operating***

Attachment 5 shows the changes to the 2016 net operating budget between 2016 April 1 and 2016 December 31. Council approval is not required for Attachment 5 as these changes have either been previously approved by Council or are within the scope of Administration to authorize as per Council Policy. This is provided to inform Council of the changes that have occurred in the period due to either Council or Administration approvals.

Attachment 6 lists Council decisions and referrals which have an actual or potential future year budget impact. This is provided to meet the requirement of NM2008-53 to track Council decisions and referrals.

Attachment 7 shows the changes to the 2017 and 2018 budget of Utilities (Program 270) due to the economic downturn and the resulting slower pace of development. This financially impacts the Utilities in the form of significantly lower Offsite Levy revenues. The Water Utility is undertaking work to manage the shortfall while maintaining commitment to Calgarians' health and safety, the provision of safe, clean drinking water, and the long-term sustainability of the utility. The operating budget adjustment is a net-zero adjustment to align the reduced revenue with expenditures. Council approval is not required for Attachment 7 as the changes are within the scope of Administration to authorize as per Council Policy. This is provided to inform Council of the changes that Administration has approved. Further detail on the operating budget adjustment is provided in report PFC2017-0402.

### **Stakeholder Engagement, Research and Communication**

Department budget actions are predicated on directions received from Council during the 2015-2018 Action Plan deliberations. Actions also reflect subsequent Council directions and actual spending patterns. For the capital budget recast, capital project owners across The Corporation were engaged for their insights and cash flow estimates to update the capital budget recast.

### **Strategic Alignment**

The Budget Adjustment process is designed to maintain the direction and priorities established in the approved 2015 – 2018 business plans and budgets. The recast and revision processes allow Administration to adapt to changes in economic conditions and the external environment, incorporate additional information that is available, and allow long term objectives to be met and support Council's priorities of a Well Run City and a Prosperous City.

### **Social, Environmental, Economic (External)**

The economic situation has significantly weakened in Calgary from the time Action Plan was approved in 2014 November. Recasting the capital budget provides Council and citizens with

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more up to date information regarding the activities of The City and a more refined estimate of the actual spending that is expected for each year.

### Financial Capacity

#### Current and Future Operating Budget:

2016 operating net budget changes between 2016 April 1 and 2016 December 31 reflect recommended changes based on Council and Administrative directions.

#### Current and Future Capital Budget:

Capital budget recast and revisions to the 2015-2018 Action Plan are requested for approval in this report. This results in a net decrease to the 2017 capital budget of \$445 million which results in the 2017 capital budget being reduced from \$2.4 billion to \$2 billion.

### Risk Assessment

The most significant risk of not approving the requested attachments is that the capital budget will not reflect the updated expected timing of actual expenditures. Additionally, not approving budget requests and transfers could impact the timely delivery of projects.

### REASON(S) FOR RECOMMENDATION(S):

Administration is requesting changes included in attachments 1 and 2 to ensure timely alignment of budgets with work plans and priorities.

The following attachments are being provided for information as no approval is required.

- Attachment 3 is providing a summary of previously approved revisions.
- Attachment 4 is providing a summary of changes made in Attachments 1-3.
- Attachment 5 is providing the operating net budget changes previously approved by Council and Administration.
- Attachment 6 is provided to meet the requirement of NM2008-53 to track Council decisions and referrals.
- Attachment 7 is provided to inform Council of operating budget changes that Administration has approved.

### ATTACHMENT(S)

1. 2017 Capital Budget Recast
2. Capital Budget Revisions – For Approval
3. Capital Budget Revisions – Previously Approved
4. Capital Budget Revision Summary
5. 2016 Operating Net Budget changes
6. Council Decisions/Referrals Having Actual or Potential Future Year Budget Impacts
7. 2017 and 2018 Operating Budget Revisions Approved by Administration