Financial Risk Summary

May 2020

Top Areas of Financial Risk

*The following corporate financial risk areas represent **current** and **important** key risks to Program success that have been identified in the current financial risk assessment. This reflects a financial risk assessment at a point in time and will evolve as risk mitigation strategies are employed and certain risks may evolve, emerge or be eliminated.*

Each financial risk area includes related risks that will be assessed for likelihood, impact, and severity. Risks with higher potential likelihood and severity require monitoring in order to drive responses; and development of financial and commercial risk mitigation strategies with the project team.

Some risks may require escalation, including potential review by the City Treasurer, Chief Financial Officer, Administrative Leadership Team and City Manager. The Green Line management team will be engaged to discuss corporate risks that may impact delivery of the Program.

Risk Area	Risk Area Description	Key Current Risk Response(s)
Capital Budget Overruns	Affordability of the Program could be impacted by scope and schedule changes and cost uncertainty by sequentially executing large contracts before the full Program cost is known. The Program budget is based on a fixed amount of funding from the Government of Canada and Government of Alberta to deliver a defined project scope. The City is liable for funding any capital budget overruns or costs associated with material changes to project scope.	• Detailed financial assessment of cost estimation forecasts and project schedule • Integration of key financial stakeholders into funding partner discussions, budget development and financial/ commercial decisions, including affordability limits and scope ladders for major contracts and analysis of spend profiles • Continue to evaluate market capacity and contract affordability mitigation strategies for major contracts • Financing funding is an unrestricted funding source and could be utilized to fund capital overruns if financing cost forecasts are below budget

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Capital Funding Timing and Shortfalls	The affordability of the Program will depend on the timing and amount of federal, provincial and City of Calgary contributions, which may be inherently linked to the project expenditure profile and schedule. Delays from current expectations in timing or amount of committed funding received by The City may impact the affordability of the Program and likely result in additional City of Calgary debt financing. If funding is not forthcoming when anticipated, The City could experience project schedule delays and impact the revenue service date or Program scope. The City of Calgary may be unable to secure front-loaded funding from the Government of Canada to offset the impact of the Government of Alberta's delayed contributions. The Government of Alberta can terminate their Ultimate Recipient Agreement (URA) funding commitment with The City of Calgary at any time without cause with a minimum of 90 days' notice. Funding partner commitments may be at risk if substantial completion of the Program is not achieved by October 31, 2027 as per the URA or the deadline cannot be extended. Additional financial guarantees or assurance from The City may be sought by proponents due to uncertainty around funding partner commitments and limited financial capacity may be available. Underestimation of ineligible costs may result in less federal and provincial funding and require a Program scope reduction or addition City funding.	• Routine assessments of the impact of changes to the funding profile • Adhering to the terms of the funding agreements (e.g. reporting requirements and conditions) • Frequent engagement with the funding partners to ensure all parties are aligned with objectives of the Program • Work collaboratively with the funding partners to ensure terms and commitments of the funding agreements are met and final federal Treasury Board approval is received to release funding commitments • Ongoing engagement with the funding partners to ensure the terms do not inhibit The City from delivering the Program and attracting quality proponents • Discuss the potential extension of the substantial completion deadline with funding partners. • Proactive discussions with funding partners to maximize eligible expenditures categories for the Program (e,g. BRT costs) and monitor ineligible costs forecast and incurred with Project Controls and Accounting
Financing Cost Funding	City debt issuance over an extended design and construction period to align with the overall contracting strategy and the amount of financing funding available, may impact the affordability of the Program given the exposure to interest rate fluctuations. The proponents Design-Build-Finance (DBF) financings may also be impacted by changes in interest rates. Uncertainty in the project schedule and DBF proponents' achievement of related milestones, and receipt of a	• Maintain and update detailed forecasts of The City and third-party debt issuance through the planning and execution process • Structure the DBF contract to minimize third-party financing • Monitor market interest rates, market conditions and available financing structures

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	significant of funding partner contributions late in the construction period may contribute to higher refinancing risk. Long-term structured loans with a fixed interest rate may not be utilized. Short-term debt may be issued in its place and refinanced with longer term debt at a future date and unknown interest rate.	• Maximize the use of available fixed rate financing structures where possible • Capital funding is an unrestricted funding source and could also be utilized to fund financing costs if capital costs for the Program are lower than anticipated
Operations and Maintenance Cost Funding	Operations and maintenance (“O&M”) costs for the Program are material recurring expenditures and are currently not funded. They will require a recurring funding source from The City such as property taxes and reside in a future budget cycle. Incremental O&M costs have been estimated in 2016 dollars for the Program. Cost estimation and escalation risk related to forecasting long-term annual operating expenditures in advance of the revenue service date.	• Refinement of the O&M cost estimate with design and delivery of the Program • Determination of the O&M funding source during 2023-2026 business planning and budget cycle • Ongoing assessment of potential funding sources during the construction period • Offset by incremental fare revenue from the Project
Major Maintenance and Renewal Cost Funding	Major rehabilitation and renewal (“R&R”) costs for the Program are material expenditures required over a long-term operations period and are currently not funded as they reside in a future budget cycle and will require funding sources to be identified. R&R costs are quoted in 2016 dollars with uncertainty over the impact of inflation. Cost estimation and escalation risk related to forecasting long-term renewal expenditures.	• Refinement of the R&R cost and schedule estimate with design and delivery of the Program • Ongoing assessment through construction of the current and future funding sources from The City that are available to fund R&R expenditures
Financing Availability	The City’s ability to borrow from the Province and access its available financing structures could change during the design and construction period of the Program. The City does not have its own long-term debt issuance program and if one is implemented, financing costs will increase.	• Engagement with financial stakeholders from the Province of Alberta • Evaluation of direct debt issuance requirements and additional costs

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The City's Credit Ratings	The quantum of debt financing issued for the Program could affect The City's credit rating or rating outlook and increase future borrowing costs for The City and its subsidiaries.	• Ongoing assessment of The City's credit rating and engagement with credit rating agencies, including for Program indebtedness