

Q2 2016 UPDATE ON THE CAPITAL INFRASTRUCTURE INVESTMENT STRATEGY

EXECUTIVE SUMMARY

To update Council on the progress of the Capital Infrastructure Investment Strategy since the 2015 November 25 Council Strategic Session and request Council's approval to proceed with a 2017 capital budget recast, reprioritization of the capital budget and identification and assessment of new opportunities to advance infrastructure investment that will promote private investment.

ADMINISTRATION RECOMMENDATION(S)

That that the Priorities and Finance Committee recommends that Council:

1. Receive for information:
 - a) The previously approved Capital Infrastructure Investment Strategy (Attachment 1);
 - b) Additional information on Infrastructure Calgary (Attachment 2); and
 - c) Additional information on the Supply function at The City of Calgary (Attachment 3).
2. Direct Administration to proceed with:
 - a) Presenting the 2016 capital recast to the Priorities and Finance Committee on 2016 September 20;
 - b) Recasting the 2017 capital budget;
 - c) Reprioritizing the capital budget and bring proposed reprioritization list to Council in the Fall of 2016; and
 - d) Identifying additional infrastructure investment opportunities and bring forward to the Priorities and Finance Committee for approval where necessary.

PREVIOUS COUNCIL DIRECTION / POLICY

Council approved the 2015-2018 capital budgets at the 2014 November 24 Special Meeting of Council. Council subsequently approved amendments to the capital budgets contained in the 2014 Year-end revisions report (PFC2015-0347) and 2015 Mid-year revisions report (PFC2015-0697).

On 2015 November 25, Council (C2015-0855) directed that Administration return to Council by Q2 2016 with a recommended capital budget recast, and approved the Investment Strategy review process as shown in Attachment 1.

The capital budget recast and revisions to the capital budgets are required to reflect changes that have arisen since that time relating to actual experience, Council directions, and administrative changes. The proposed 2016 recast is near completion by Administration. However, because of the volume and nature of the information, it was thought best to allow for discussion to occur at the September 20 Priorities & Finance Committee (PFC) meeting and then onto Council, rather than discuss at a Strategic Planning meeting of Council.

BACKGROUND

Following the 2016 November 25 Special Meeting of Council, Infrastructure Calgary was created with the mandate to oversee the Capital Infrastructure Investment Strategy (see Attachment 1). The overarching themes of the strategy are to improve forecasting, prioritize

Q2 2016 UPDATE ON THE CAPITAL INFRASTRUCTURE INVESTMENT STRATEGY

projects, optimize funding, examine ways of involving the private sector and monitor and report on progress.

The City's capital spend rate has historically been approximately 50% to 60% of the planned capital budget, often around \$1.2 billion. The current approved 2016-2019 capital budget is front-end loaded, with budgets in 2016 and 2017 well above historical spending averages. The City has undergone a thorough review of the 2016-2018 capital budget and is near completion of the recast of the cash-flow timing for projects in 2016. The capital budget recast included engagement with business units to determine a more accurate forecast. Other initiatives such as Accelerating Capital for Economic Resilience (ACER) and Supply's Five Point Plan will further assist in delivering The City's capital budget projections.

The City is mindful of the current economic situation and is looking at ways to advance its investment in infrastructure while examining related issues, including but not limited to, the operating cost of capital, private sector investment levels, short and long-term job creation and project readiness and worthiness.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Capital Budget Recast Overview

The current approved 2016 capital budget is \$3.2 billion, which is comprised of the 2016 approved action plan capital budget of \$1.6 billion, plus amounts carried forward as part of the budget revisions process in 2014 and 2015 totalling \$1.6 billion (\$307 million in 2014, \$456 million in 2015, and \$844 million from the 2015 year end).

The capital budget recast, which will be presented to the September 20 PFC meeting, aims to increase The Corporation's annual capital investment average from \$1.2 billion by no less than 25%. This is below the funding available but portrays a realistic delivery program. This number may potentially be higher by September depending on the success of the actions discussed in this report. This increased capital investment was further validated by looking at the progress of procurement and land acquisition requirements. The Administration believes that this increased level of investment will provide benefits to the economy.

Infrastructure Calgary Progress

Infrastructure Calgary is a corporate wide initiative created to provide governance and oversight of The Corporation's Capital Infrastructure Investment Strategy. This initiative is based in the Deputy City Manager's Office and guided by a cross-corporate governance committee representing capital intensive business units and business areas supporting the capital process. A dedicated Program Management Office has been established to plan, manage, execute and report on the Infrastructure Calgary portfolio, and act as a central point of coordination for the programs and projects within the portfolio. Infrastructure Calgary will manage the forecasting, prioritization of projects, optimization of funding, examine ways to involve the private sector and monitor and report on progress.

A cross-corporate network of representatives has also been established to support the initiatives within the portfolio and act as representatives for departments and business units across The Corporation. The Governance Committee, Program Management Office and contacts within each department will engage and collaborate with stakeholders throughout the organization to

Q2 2016 UPDATE ON THE CAPITAL INFRASTRUCTURE INVESTMENT STRATEGY

strengthen the systems and processes involved in capital planning management (see Attachment 2 for more information). Infrastructure Calgary does not participate in the execution of projects throughout the organization – this responsibility continues to reside in the individual business units.

As part of Infrastructure Calgary, the Accelerating Capital for Economic Resiliency (ACER) program has been established to identify and implement means by which The City can deliver investments in capital projects as efficiently and effectively as possible. The ACER team has facilitated efforts to increase the communication of information about upcoming project work between capital project delivery teams and capital project delivery partner groups. A workshop was held on 2016 February 8 to share information on upcoming 2016 projects and determine appropriate actions to increase capital project delivery capacity. This exchange of information is essential for ensuring that there is adequate capacity to support capital project delivery, as well as an opportunity to seek efficiencies in capital project delivery.

One of the challenges identified in capital project delivery has been insufficient capacity in some key areas that support capital projects, including Law and Supply Management. The ACER program has initiated work with these key areas and others to increase staff in roles that support capital project work. Additional staff are now in place or are being recruited in these areas. While it is too early in the 2016 capital project construction season to report results, this is being monitored to ensure that the increases in staffing result in positive outcomes for capital project investments. The ACER program continues to work with stakeholders to identify opportunities to expedite capital project delivery by streamlining and clarifying project delivery processes.

Supply Function Update

As part of the recent organizational changes announced by the City Manager, the Supply function, led by Sarah Aspinall, now reports into the Deputy City Manager's Office and is being fully integrated into Infrastructure Calgary. In addition to the work ACER has completed, Supply has made recent organizational and other changes in its own area and has developed a five point plan to further enhance its support for the organization (see Attachment 3 for more detailed information about these changes).

Advancing Infrastructure Investment – Next Steps

Over the next several months, the Administration will work on recasting the balance of the approved capital budget. Additionally, the Administration will be looking to update and reprioritize the capital budget and present an updated and coordinated infrastructure investment plan during the mid-cycle adjustments in November of this year.

Given the current economic situation, The City has also been analyzing potential infrastructure investments that would support further economic growth, create jobs and leverage public investment to trigger private investment.

At least two ways to drive this investment from The City's perspective are: (1) to invest capital funding now in infrastructure that can be the impetus for development in an area, and (2) to provide greater clarity regarding infrastructure investment commitments that The City will make to provide capacity for future development.

Q2 2016 UPDATE ON THE CAPITAL INFRASTRUCTURE INVESTMENT STRATEGY

As a result, Administration may recommend to Council, prior to November, projects based upon their economic stimulus impact, meaning the majority of projects are ready for procurement of consulting or construction services (i.e. shovel ready and worthy), they leverage City and private investment, and contribute to the creation of jobs.

Advancing infrastructure would increase capacity for development in established, industrial and greenfield areas of the city, helping to achieve the goals of supporting the economy while accelerating capital spending, delivering infrastructure and taking advantage of favourable pricing. Specific information and requests for approval will be brought to Council through PFC as soon as possible.

Considerations in prioritizing the investment opportunities will include, but not be limited to, operating costs of capital, investment leverage (multiple of Industry investment to City investment), short and long term job creation, and project readiness. Considerations for funding operating costs of capital will depend on the nature of the project and whether property tax is the only funding option or whether there may be an opportunity for developers to contribute with these costs. Operating costs of capital will need to be addressed along with these capital requests.

Federal and Provincial Grant Programs

Lastly, work continues with the Federal and Provincial governments, as details are released with respect to previously announced grant programs. In some instances, funding criteria have been announced and City Administration is working to bring investment decisions to Council for its consideration in alignment with current priorities. In other instances, funding criteria have not been announced, and The City is providing input on what the criteria should be and how the programs should be administered to maximize local benefit. The Administration is aware that matching contributions will be required and this funding is being considered as the infrastructure investment strategy is being updated.

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 current Council directions and actual spending patterns. Capital project owners across The Corporation were engaged for their insights and estimates to update the capital budget recast.

Findings from The City's annual Citizen Satisfaction survey and Research on Calgary's Economy show that infrastructure remains at the top of the issue agenda for Calgarians. The majority of Calgarians think it is a good time for The City to invest in new projects, with local job creation a key driver.

Strategic Alignment

The capital budget recast is an important part of the Adjustments process. The Adjustments process is part of multi-year business planning and budgeting, and is designed to maintain the direction and priorities established in the approved 2015 – 2018 business plans and budgets. The ability to adapt to the changing economic conditions is a critical aspect of the process. The Adjustments process allows Administration to adapt to changes in the external environment and propose adjustments that allow long term objectives to be met and support Council's priorities of a Well Run City.

Q2 2016 UPDATE ON THE CAPITAL INFRASTRUCTURE INVESTMENT STRATEGY

Social, Environmental, Economic (External)

The economic situation has changed in Calgary significantly from the time Action Plan was approved. Recasting the budget and identifying contingencies that can be released provides council and citizens with more up to date information regarding the activities of The City.

Financial Capacity

Current and Future Operating Budget:

Operating costs of capital may be required for projects arising from opportunities to advance and reprioritize infrastructure investment as they are finalized.

Current and Future Capital Budget:

Capital budget revisions to the 2015-2018 Action Plan are discussed in this report but will be reported in detail at the 2016 September 20 PFC meeting.

Risk Assessment

From an Integrated Risk Management perspective, the most significant risks are internal capacity and the economic situation. The City will need to ensure that there is sufficient capacity to implement the plans and initiatives outlined. From an economic perspective, the changes in the economy could continue to put additional pressures on The City. There is also a risk that new infrastructure projects may take The City beyond some of the targets in the Municipal Development Plan.

REASON(S) FOR RECOMMENDATION(S):

Given the current economic situation, The City is analyzing potential infrastructure investments that would support further economic growth, create jobs and leverage City and private investment.

Administration is providing Attachments 1, 2, and 3 to update Council on progress made in relation to the Capital Infrastructure Investment Strategy and related initiatives.

ATTACHMENT(S)

1. Capital Infrastructure Investment Strategy
2. Infrastructure Calgary
3. Supply Update