

Chief Financial Officer's Report to  
Combined Meeting of Council  
2019 April 29

ISC: UNRESTRICTED  
C2019-0525

## Major Capital Projects Reserve

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### EXECUTIVE SUMMARY

This report provides Council with the purpose, terms and conditions, and restrictions for the Major Capital Projects Reserve, including the initial funding of the reserve as approved by Council on 2019 March 4. The reserve proposed purpose, terms and conditions, and restrictions are outlined in Attachment 1 and identifies the Operational and Finance lead contacts for the reserve that are responsible for the administration of the reserve in accordance with Council's direction for the reserve and per stipulations contained in Council's Reserve Policy CFO013 and Administration's Reserve Policy FA050.

### ADMINISTRATION RECOMMENDATION:

That the Council:

1. Approve the purpose, terms and conditions, and restrictions for the Major Capital Projects Reserve as outlined in the Reserve Template - Request to Create a New Reserve (Attachment 1)
2. Approve the Major Capital Projects Reserve Template – Mock up (Attachment 2).

### PREVIOUS COUNCIL DIRECTION / POLICY

On 2019 January 28, Council (C2019-0135) directed Administration to return to Council no later than April 2019 with further refined options to optimize funding, financing and schedules for all four Unfunded Long Term Projects, considering the following conditions but not limited to:

- Maximize uncommitted cash reserves available for project funding and financing
- Minimize of financing costs;
- Prioritize the use of restricted funding sources where possible
- Maximizing partner funding contributions;
- Maximizing the number of projects that can be completed
- Minimizing the overall credit rating impact;
- Refine project scope to reduce project costs where possible;
- Sequencing the projects to reduce overall costs; and
- Maximizing value from our asset portfolio.

These conditions are known as the financial strategy for the four Unfunded Long Term Projects (BMO Centre expansion, Event Centre, one phase of Arts Commons, and Multi-Sport Field House).

On 2019 March 4 Council (VR2019-0013) approved the financial strategy for four Unfunded Long Term Projects on the terms and conditions discussed during the closed session and directed Administration to prepare a report for the 2019 March 18 Combined Council meeting outlining the capital funding approvals and supporting financial documents required to commence the BMO Centre expansion project.

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On 2019 March 18 Council (C2019-0349) approved The City to execute an internal loan of up to \$333.3 million to be provided to CMLC representing The City and Government of Alberta's contributions towards the project. The loan will be sourced from a Council directed Reserve and will require an execution of a Contribution Agreement and Loan Agreement between The City and CMLC. The approval of this internal loan is conditional upon execution by The Government of Canada of a contribution agreement acceptable by The City as to the terms and content with the Calgary Stampede to fund one-third of the project's capital costs. CMLC must also request capital appropriation through its business plan and budget process for the Project for up to \$500 million.

### **BACKGROUND**

On 2019 March 4 (VR2019-0013) Council directed the creation of an interest bearing Major Capital Projects reserve and approved the initial funding for this reserve. Administration was directed to formalize the reserve creation and to return to Council no later than Q2 2019 with the reserve purpose, terms and conditions, and restrictions for Council's approval.

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

Council's Reserve Policy CFO013 defines the process for the creation of a new reserve. The policy requires the Priorities and Finance Committee (PFC) to forward to Council for approval a report requesting a new reserve. The policy requires all requests for new reserves to be reviewed by the Chief Financial Officer, then the City Manager and then forwarded to the PFC with a recommendation to Council for approval. The Major Capital Projects Reserve is being brought forward directly to Council and not through the process contained within Reserve Policy CFO013. This is based on direction from Council at its meeting on 2019 March 4.

Council's Reserve Policy CFO013 also defines the information to be included in the report for creating a new reserve. Administration's Policy on Financial Reserves FA050 provides the forms for creating a new reserve and the reserve templates. These are included within Attachment 1 and Attachment 2 to this report for Council approval.

This report is not seeking approval for the BMO Centre Expansion project funding. The funding of the internal loan of up to \$333.3 million representing The City and Government of Alberta's contribution towards the project will be sourced from the Major Capital Projects Reserve upon execution by The Government of Canada of a contribution agreement acceptable by The City as to terms and content with the Calgary Stampede to fund one-third of the project's capital cost. The release of the internal loan funding by The City will require an execution of a Contribution Agreement and Loan Agreement between The City and CMLC.

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

The recommendations were developed with the support, input and guidance from subject matter experts in the Chief Financial Officer's Department.

### **Strategic Alignment**

The Major Capital Projects Reserve has strong alignment with the Economic Strategy for Calgary: Building on our Energy, which speaks to a collaborative effort between business, government and community partners to position Calgary as the location of choice for business

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and investment, foster trade and develop Calgary's workforce. The projects funded by this reserve will be aligned with The City's Capital Investment Plan and Council Priorities.

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

The projects funded by the Major Capital Projects Reserve will have a positive economic impact including local employment creation and gross domestic product growth.

### **Financial Capacity**

#### ***Current and Future Operating Budget:***

The commitment of funds to this reserve and subsequent disbursements from the reserve will result in overall lower reserve balances, lower liquidity and the associated financial flexibility, potential credit rating impacts, and reduced investment income allocations to general revenues and/or other reserves. Investment income to be earned and captured within the reserve balance over the next four years is projected up to \$25 million. The investment income earned from this reserve would have previously been earned within other reserves or allocated to general revenues to fund operating activities.

#### ***Current and Future Capital Budget:***

The use of uncommitted reserve funds for the four Long Term capital projects means lower availability of funds for any other known or unknown unfunded capital projects or for any unforeseen shock or stressor.

### **Risk Assessment**

The creation of the reserve does not create a new risk. It allows optimization for the allocation of capital funds as per the financial strategy approved by Council for any of the four Long Term capital projects. Risk assessments will be conducted as proposals are presented for funding from this reserve. Mitigation strategies will be developed to manage the overall risk profile of the portfolio of projects funded from this reserve.

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

The creation of the Major Capital Projects Reserve is a key component of the financial strategy approved by Council for the four Long Term capital projects. Council will leverage these funds where possible to obtain contributions from other levels of government to accelerate the investment within the community with the goals of economic expansion including local employment creation.

### **ATTACHMENT(S)**

1. Attachment 1 – Major Capital Projects Reserve Template Request to Create a New Reserve
2. Attachment 2 – Major Capital Projects Reserve Template – Mock up