CAPITAL INFRASTRUCTURE INVESTMENT PRINCIPLES

Updated Capital Infrastructure Investment Principles for Council Approval:

Introduction

The City of Calgary (The City) seeks to improve the quality of life, build public confidence and trust and demonstrate service value to Calgarians. Capital planning and investment plays a pivotal role in creating inclusive, accessible and connected communities and dynamic economies, contributing to a resilient city.

Background

By approving the Capital Infrastructure Investment Strategy (CIIS, C2015-0855) on 2015 November 25, Council affirmed the role of capital investment in building and improving city resilience. A corporate capital strategy enables The City to restructure and increase its capacity to intentionally provide economic stimulus, add resilience to the community, maintain and preserve The City's infrastructure and community assets through lifecycle funding, build a great community through legacy investments and leverage external public and private investments.

2019-2022 One Calgary Service Plans and Budgets will deliver on Council Directives and drive a renewed focus on services, including improvements in service delivery and accountability. With the development of One Calgary Service Plans and Budgets and following the 2019-2022 Council Directives that includes Council's Five Guidelines to Administration, the revised CIIS provides greater alignment to The City's shift towards service plans and budgets, and is intended to strategically better accommodate shocks and stresses through changing internal and external pressures.

Intentional management of capital at The City will:

1. **Support the delivery of City of Calgary services, at approved service levels**
   Capital investments facilitate the delivery of services to residents. Services and service levels are defined by Council through the approval of multi-year service plans and budgets. The primary criteria for identifying, prioritizing and funding capital investments will be the need for capital to deliver services at approved service levels and the associated operating impact of this capital.

2. **Promote the well-being of communities, environment, and economy**
   Capital investments are intended to promote the well-being of a community through improved connectivity, accessibility, inclusion, and environmental health as well as long-term resilience. The range of typical social, economic and environmental objectives accomplished through infrastructure investments includes benefits such as maintaining public safety and security, improving economic productivity, facilitating community cohesion, addressing risks and vulnerabilities for service providers, reducing the impact on climate change and enhancing public spaces and interactions within communities.

3. **Build an adaptable, resilient and smart city**
   With adaptable and resilient infrastructure, The City can better manage risks and vulnerabilities to shocks and stresses. Resilient infrastructure is designed to ensure service delivery (meeting the needs of today while anticipating and not compromising the needs of

tomorrow), adaptation (capacity to withstand disruption, both natural and man-made), community preparedness and financial strength. Infrastructure should also be designed to be resilient to the effects of climate change, and respect and help maintain ecological and biological diversity.

Smart cities utilize data innovation and technology to better inform decisions on service delivery, purpose and size of capital investments, economic development and resident empowerment and inclusion. Capital infrastructure planning and investments provide potential opportunities to explore, incubate, and potentially utilize innovative technologies, design, services and practices.

4. **Enhance the long-term value of City assets**
Capital planning and investment at The City benefits requires a thorough appreciation of the long-term implications of service demand and asset needs, legal and regulatory provisions, technological trends, finance and asset ownership along with the integration of whole-of-life costing (i.e. asset acquisition, operation, maintenance and upgrades, and responsible disposal viewed through a single lens of asset stewardship). Capital planning and investment is necessary to deliver citizen facing services as well as supportive services (within The City's control), to maximize the value to residents while minimizing service disruption, public safety and security risks, energy and environmental impacts and whole-of-life cost. Adopting industry-standard systematic asset management practices reduces legal and reputational risks to The City and improves accountability and transparency to the tax payer.

To maximize the value of The City's previous and proposed capital investments, funding is required for the development of asset management plans addressing costs across the entire lifecycle (planning, building/acquisition, operation, maintenance, evaluation and eventual disposal) and the prioritization of municipal capital investment to support intensification prior to the completion of communities in planned and /or future greenfield areas. Maintaining the overall asset health is necessary to ensure The City's ability to reliably and sustainably deliver Council-approved levels of service. Resources need be allocated to achieve an appropriate balance between the maintenance and renewal of existing infrastructure and the demand for new growth infrastructure.

5. **Integrate, coordinate and optimize The City's investment**
Capital investments should be managed in a way which provides maximum value to the community. An integrated and coordinated approach to capital planning, prioritization and funding – administered at the corporate level – refines investments, identifies efficiencies and achieves economies of scale. Where possible, The City's capital investments should contribute to multiple services and ensure continuity during times of normal use, emergency response and recovery. Regional benefits should also be considered.

Infrastructure investments may be coordinated or focused upon an identified investment need, support a service gap in the community, and/or contribute to alignment with external (i.e. private, provincial, federal) investment for a specific time. A directional investment focus may influence the corporate-level identification, prioritization and funding for capital investments.

CAPITAL INFRASTRUCTURE INVESTMENT PRINCIPLES

Council recognizes the need to embrace appropriate levels of risk, innovation and experimentation as opportunities to improve. Capital planning and investments create opportunities to explore and potentially make use of innovative technologies, design, services and practices.

6. **Optimize financing and funding sources**

The development of a fiscally sustainable corporate approach to financing and funding will maximize The City's opportunity to provide capital investments that support service delivery. Allocating the most restricted funding sources first, and switching accordingly (where permissible) to free up more flexible funding will enable The City to more effectively respond to current and emerging funding opportunities.

Focusing on long-term financial strategies, attracting private and other government investments and/or other alternative funding mechanisms (such as shared service delivery models and cost/revenue sharing mechanisms) creates the opportunity to realize greater economic and social value. Developing partnerships with external organizations to reach common goals for Calgarians will further promote entrepreneurship and investment within the city.

CAPITAL INFRASTRUCTURE INVESTMENT PRINCIPLES

Original Capital Infrastructure Investment Strategy (C2015-0855)

Approved on 2015 November 25

Administration's proposed Infrastructure Investment Strategy review will work in conjunction with the Accelerated Capital for Economic Resilience (ACER) project to address several areas that have caused low capital spend rates in the past. Specifically, the strategy will:

1. **Critically examine and recast cash flows**
One of the reasons for the low capital spend rate is that not enough rigor has been put into forecasting the cash flows of capital projects. This results in budgets that do not reflect the anticipated cash flow, leading eventually to budget deferrals. Critically examining the cash flows is anticipated to yield a more realistic capital budget. This may also free up funding in some years to advance shovel ready projects that are budgeted in later years. The recast capital budget will be presented to Council in the Budget Finalization report in Q2 2016.

2. **Determine the priority projects**
Administration will review the prioritization of capital projects, taking a more corporate view of prioritization, understanding restricted funding sources. Rather than allocating funding to Departments to apply to the individual priority lists, the corporate priority list will be developed, with funding allocated on a project by project basis. A revised priority list will be presented to Council as part of the mid-cycle adjustment process.

3. **Align with Federal and Provincial Government Initiatives**
Administration will review Federal and Provincial governments' announcements to identify incremental funding initiatives. Administration will also work with these governments to identify priorities and processes for infrastructure investment and align The City's capital investment priorities accordingly.

4. **Review funding sources and switch accordingly**
Building off the corporate priority list, the funding sources will be considered and allocated on the basis of the most restricted sources first, in an attempt to free unrestricted funding.

5. **Review allocation of funding**
The current allocation of funding will be reviewed and redistributed to best meet the corporate priority list. This will result in the revised capital budget to be presented to Council in 2016 November as part of the mid-cycle adjustments.

6. **Standardize processes**
Cash flow estimation, procurement and permit application processes will be standardized to the greatest extent possible in order to gain efficiencies and remove key bottle necks that constrain spending.

7. **Fund additional resources**
Fund capital project acceleration initiatives through an increase of the existing corporate project management charge against capital budgets from up to 0.5% to a

CAPITAL INFRASTRUCTURE INVESTMENT PRINCIPLES

maximum of 1.5%. Funding will be used to augment capital project delivery capacity in key areas such as Law and Supply Management. It will also support the implementation of cross functional teams focused on delivering capital projects efficiently and effectively. This funding will only be used as required and appropriate controls will be established.

8. **Examine ways of involving the private sector to a greater extent**
   Discussions will include the private sector to determine the degree to which their participation can be increased in order to speed processes and delivery of infrastructure.

9. **Identify and approve associated operating budget funding**
   The operating costs of new capital projects must be identified and any associated incremental Operating Budget funding relating to those projects be approved along with the Capital Budget funding associated with those projects.