

Report to Council



Date: November 14, 2012
File: 0220-30
To: City Manager
From: Director, Infrastructure Planning
Subject: Long Term Capital Planning

Recommendation:

THAT Council receives for information, the report from the Director of Infrastructure Planning dated November 14, 2012 regarding Long Term Capital Planning.

Purpose:

To provide background information regarding the Long Term Capital Planning process relevant to the upcoming 2013 Budget deliberations. This is one of several reports including background on Asset Management; reserves and debt; the 5-year financial plan assumptions, realities, and changes to the 2013 budget format; service standards and capital strategies and others.

Background:

As outlined in Section C of Kelowna's 2012 Financial Plan, "the Financial Plan attempts to provide a 'snapshot' of the future using current standards and service levels. Input from the citizens of Kelowna, the availability of funding from other sources (Federal, Provincial, Community), the new Official Community Plan, 20 Year Servicing Plan and 10 Year Capital Plan, all affect the programs included in the future years of the plan. The 10 Year Capital Plan, last revised in 2009, has provided a guideline for future capital in this 2012-2016 Financial Plan, however, it has been adjusted to reflect known projects that may or may not be occurring. A new Capital Plan is currently under development."

In January 2012, the City was awarded a Federal Gas Tax Grant under the "capacity building" category of the General Strategic Program Fund to complete a long term capital planning tool consistent with:

- the 'integrated sustainable community planning (ICSP)' principles (www.cscd.gov.bc.ca/lgd/intergov_relations/library/ICSP_Backgrounder.pdf) that encourage "healthier, less costly and more sustainable communities," and
- the City's Sustainable Municipal Infrastructure Policy (#352).

The City indicated that the final long term capital plan would be comprehensive and integrate three distinct categories of capital expenditures:

- renewal and replacement of existing fixed property assets (current replacement value = \$2.7 billion)
- servicing property for growth [20-year Servicing Plan and Financing Strategy enabled through the Development Cost Charge Bylaw (DCC)]; this includes only water, sewer, major transportation networks and park-land acquisition;
- new non-DCC infrastructure to service growth and level of service enhancements; this includes fire and police, recreation and culture, parks development, municipal

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operations, information and communication systems, vehicles and equipment, general land, public transit, local roads, drainage and sidewalks, etc.

The long term capital plan will be developed in three phases to consider two different perspectives:

- Phase 1 - Forecasting a 2020 plan: This will provide a mid-term capital plan that incorporates Councils “*Moving Opportunities Forward: Council Focus 2012-2014*” report. This report set the foundation for major projects to be completed through 2020. Although the 2020 capital plan will capture Council’s aspirations for change, given the natural inertia of existing capital investments, it will primarily project current levels of service within the current operating environment. It will also be restrained by current technologies as well as current trends in revenues. This plan will be presented to Council at the end of October, 2012 to:
 - confirm the recommended key project priorities;
 - seek direction on changes in service levels, additional services or projects that should be considered;
 - validate assumptions regarding revenue sources.

- Phase 2 - Scenario Analysis: Over the longer term, the operating environment changes. On the other hand, infrastructure is planned and built for a long-service life. Because of changing environmental, economic, social and cultural circumstances, as well as scientific and public perceptions of what constitutes a good life and expectations regarding municipal services, infrastructure is not always successful at meeting future needs and remaining useful in future contexts, even though it may still be physically competent. Therefore, this second plan will begin with an examination of the range of potential local impacts of major global trends to 2050. This scenario methodology, pioneered by Dutch Shell Oil and now established as a strategic planning tool for major multi-nationals corporations and governments, was developed to increase the long term viability of investment decisions to better account for potential outcomes and to acknowledge the uncertainties of the current drivers of change. This examines plausible but different trajectories of the local impacts of trends like population growth and demographic transitions in age and ethnicity; climate change affecting precipitation and flooding; the demand for natural resources, energy, water and food; political security and monetary stability; and anticipated technological and regulatory change; etc.

Funding is available to extend research initiated by the Regional District of the Central Okanagan in trend analysis (www.futureok.ca/phase-2/information-briefs.aspx)¹ to cover a broader scope and a longer time frame. Although each scenario could invoke a different portfolio of capital investments, it is expected that there will be a common program of investments that will remain resilient and adaptable to the majority of possible futures, underpinning the prosperity and health of Kelowna despite global events outside of our control.

¹ Report topics included: Agriculture and Rural Land Area Protection; Air, Energy And Greenhouse Gas Emissions; Economic Development; Environment, Recreation Space and Sensitive Areas; Housing; Regional Governance And Service Delivery; Transportation; Water Resources, Lakes and Streams

The development of scenarios, the selection of capital investments and the local capital investment actions required now to seize the most desirable long term future will all be subject to public dialogue and engagement. A comprehensive public and stakeholder engagement plan is under development, but will likely include representative focus groups, on-line surveys, open houses and collaborative stakeholders meetings.

This work is funded by the GSPF grant and must be completed by March 2014.

- Phase 3 - Revised 9 Year Capital Plan. Phase 1 and Phase 2 will examine capital needs from two different perspectives. Projecting the status quo forward will be complimented by backcasting the impacts of plausible futures to inform current actions and capital investments. Together they should inform a realistic 10-year plan that is adaptable to both probable change and a range of uncertainties. The 360 degree approach will be better able to support a local vision of a resilient, healthy and prosperous community.

The terms of the grant require that the indicators and targets specified in the multiple bottom line framework of the Sustainable Municipal Infrastructure Policy be re-examined for their practical utility to guide planning decisions and to measure the success of the new long term capital plan.

Most importantly, the plan will include an acceptable financing strategy, be updated regularly and incorporated annually into the required Municipal 5-year Financial Plan.

The long term capital plan is a key reference document in ensuring that the annual budget planning cycle, given the reality of constrained budgets, is not distracted from the highest priority projects.

Internal Circulation:

Director, Financial Planning
Director, Policy & Planning
Director, Design & Construction
Director, Civic Operations
Director, Real Estate & Building Services
Director, Communications
Manager, Asset Management & Investment
Accountant, Asset Management & Investment
Financial Analyst, Asset Management & Investment

Legal/Statutory Authority:

Part 6 Division 1 of the *Community Charter* and Part 24 Division 5 of the *Local Government Act* require municipalities and regional districts to prepare a financial plan annually. The financial plan must be adopted annually by bylaw and it must cover a minimum five year period. Section 165(4) of the *Community Charter* requires a municipality to set out the proposed capital expenditures (including capital), revenues, and transfers between funds. A municipality cannot plan for a 'deficit'.

Legal/Statutory Procedural Requirements:

Section 166 of the *Community Charter* and Section 816 of the *Local Government Act* require the local government to undertake a process of public consultation regarding a proposed financial plan before it is adopted. The legislation does not specify the format of the public consultation process and it may be varied at the local government's discretion to suit the local community. Given the scope of the renewed capital plan, meaningful public engagement will be a key component of the work.

Existing Policy:

The Sustainable Municipal Infrastructure Policy #352 mandates a framework of targeted results to measure accountability for capital investments in public infrastructure. The indicators evaluate system-wide infrastructure performance; these currently include issues such as reliability and universal access to levels of service and public benefit; the optimization of life-cycle cost savings; demonstrated return on investment; environmental benefits (GHG emission reduction; material and energy throughput reductions; source water and habitat protection); design excellence; and public engagement, etc.

Financial/Budgetary Considerations:

The budget for this work has been approved.

Considerations not applicable to this report:

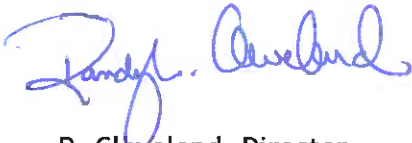
Personnel Implications:

External Agency/Public Comments:

Communications Comments:


Alternate Recommendation:

Submitted by:



R. Cleveland, Director

Approved for inclusion:
Sustainability



D. Gilchrist, A/General Manager, Community

- cc:
- General Manager, Community Services
 - General Manager, Corporate Sustainability
 - Director, Civic Operations
 - Director, Communications
 - Director, Design & Construction
 - Director, Financial Planning
 - Director, Policy & Planning
 - Director, Real Estate & Building Services

LONG TERM CAPITAL PLANNING

Report to Council - 2012.11.14



CITIES GENERATE WEALTH

60% of Canadian GDP generated in 11 cities, home to 1/3 of the population
Vancouver Sun, September 27, 2010

11-CITY TOTAL \$668.9 billion

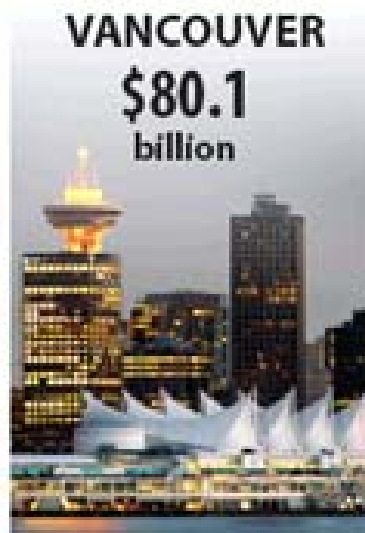
CANADA TOTAL \$1.286 trillion



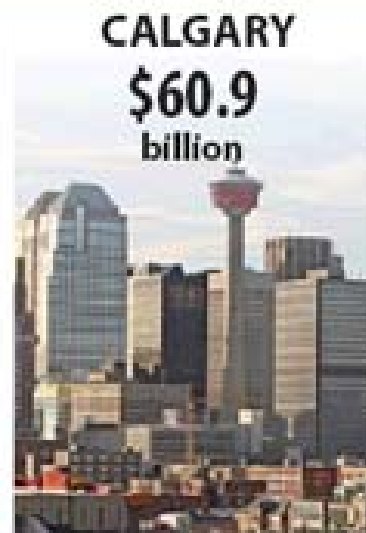
TORONTO
\$217.5
billion



MONTREAL
\$122.3
billion



VANCOUVER
\$80.1
billion



CALGARY
\$60.9
billion



EDMONTON
\$48.5
billion

OTTAWA-GATINEAU \$45.6 billion

WINNIPEG \$25.0 billion

QUEBEC CITY \$24.9 billion

WATERLOO region \$21.9 billion

HALIFAX \$12.8 billion

SASKATOON \$9.4 billion

MUNICIPAL INFRASTRUCTURE MATTERS

- ▶ Provides the physical structure for municipal services at a Council approved level of service
- ▶ Plays a critical role:
 - ▶ Achieving Quality of Life
 - ▶ Enhancing competitiveness & prosperity
 - ▶ Supporting innovation, adaptability, resilience
 - ▶ Protecting the environment
 - ▶ Achieving community aspirations
- ▶ 20%± of annual budget

ASPIRATIONS: VISION TO OUTCOMES

Vision

- **Council Strategic Objectives**
- OCP: Establishes Overall Vision, Growth Mgmt Forecast & Policy

Plan

- **Long -term Capital Plan (strategic investment)**

Do It!

- Zoning and Development Bylaw
- Subdivision, Development & Servicing Bylaw
- **Annual Budgets & 5-year Financial Plan**

Measure

- Monitor outcomes (infrastructure scorecard)
- Adjust action plans and budgets

FEDERAL GAS TAX GRANT (GSPF)

- ▶ Integrated Sustainable Community Planning
- ▶ Sustainable Municipal Infrastructure Policy
- ▶ \$253,000

CAPITAL PLANNING OBJECTIVES

Long-Term Capital Plan

Preserve Existing Infrastructure

(Asset Mgmt Plan-
PSAB 3150, 40 yr half-life)

Annual report,
consolidate separate plans

DCC Growth Infrastructure

(20-year Servicing Plan &
Financing Strategy - Bylaw
10515, supports growth)

Renewal with major OCP,
price or growth changes

Non DCC + Level of Service

maintenance-
improvement

Renewal for LOS changes,
new priorities-opportunities

Renewed for Council priorities, adjusted for revenues & construction escalation

Implemented through Council's Annual Budget Approval

METHODOLOGY

- ▶ Phase 1: 2020 (3-term plan)
 - ▶ Resolves current issues
 - ▶ First draft presented today
 - ▶ Identifies key projects within anticipated funding
 - ▶ Seeks direction on new services & projects
 - ▶ Seeks direction on revenue assumptions

METHODOLOGY

- ▶ Phase 2: 40-year plan
 - ▶ Anticipates changing operating environment
 - ▶ Extensive Public Process

- ▶ Phase 3: Combined plan
 - ▶ Provides adaptive capacity
 - ▶ Grant deadline, March 2014

QUESTIONS?

The danger is not that your hopes are too high and you fail to reach them; its that they are too low and you do. ...Michelangelo

