

REPORT TO COUNCIL



Date: November 14, 2012
File: 0220-30
To: City Manager
From: Capital Assets & Investment Manager
Subject: 2013-2020 Capital Plan Update

Recommendation:

THAT Council receives, for information, the report from the Capital Assets & Investment Manager, dated November 14, 2012, with respect to the 2013-2020 Capital Plan Update.

Purpose:

To provide Council with a summary of the capital plan for the period 2013-2020 (herein termed the "2020 Plan") so Council can provide their comments and direction.

Background:

The 2020 Plan will help guide the City through the next eight years of growth and is a vital component of the comprehensive Five Year Financial Plan. The timeframe was chosen to capture three municipal election cycles (2012-2020). The 2020 Plan is an interim step to revise the 10 year capital plan, which has not been updated since 2009. Future iterations of this plan will capture 3 full election terms and be revised to reflect subsequent Council Priority documents.

The 2020 Plan has been prepared with significant staff effort and contains General Fund and Utility Projects required to maintain levels of service, preserve existing assets, and provide opportunity for growth and economic development. Several documents and plans have been used in the preparation of the 2020 Plan. These include:

- Moving Opportunities Forward (Council Priorities),
- City of Kelowna Strategic Plan,
- OCP,
- Parks and Recreation Master Plan,
- Cultural Plan
- 20 Year Servicing Plan and Financing Strategy,
- 20 Year Asset Management Investment Plan,
- Transit Future Plan, and
- Transportation and Utility Models.

Since 1996 the population of Kelowna has grown by approximately 33% from 89,000 to almost 120,000. The City's growth is forecast to continue to grow over the next 8 years at an average rate of approximately 1.7%. With this growth and aging infrastructure the City needs a strategic capital plan to forecast investment in infrastructure renewal and levels of service, growth infrastructure, infrastructure for economic development and culture, and infrastructure modifications for regulatory changes (e.g. water treatment and transportation safety).

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Adequate financing needs to be in place to schedule and undertake each capital investment. The 2020 Plan looks at revenue sources whether it be rates, taxes, fees, development cost charges, grants, reserves or borrowing. As there is never enough money to fund competing needs, tradeoffs and hard choices are required to establish an optimum and affordable list of priorities. The 2020 Plan provides the framework for long term planning and fiscal management and allows the City to look ahead and answer three fundamental questions:

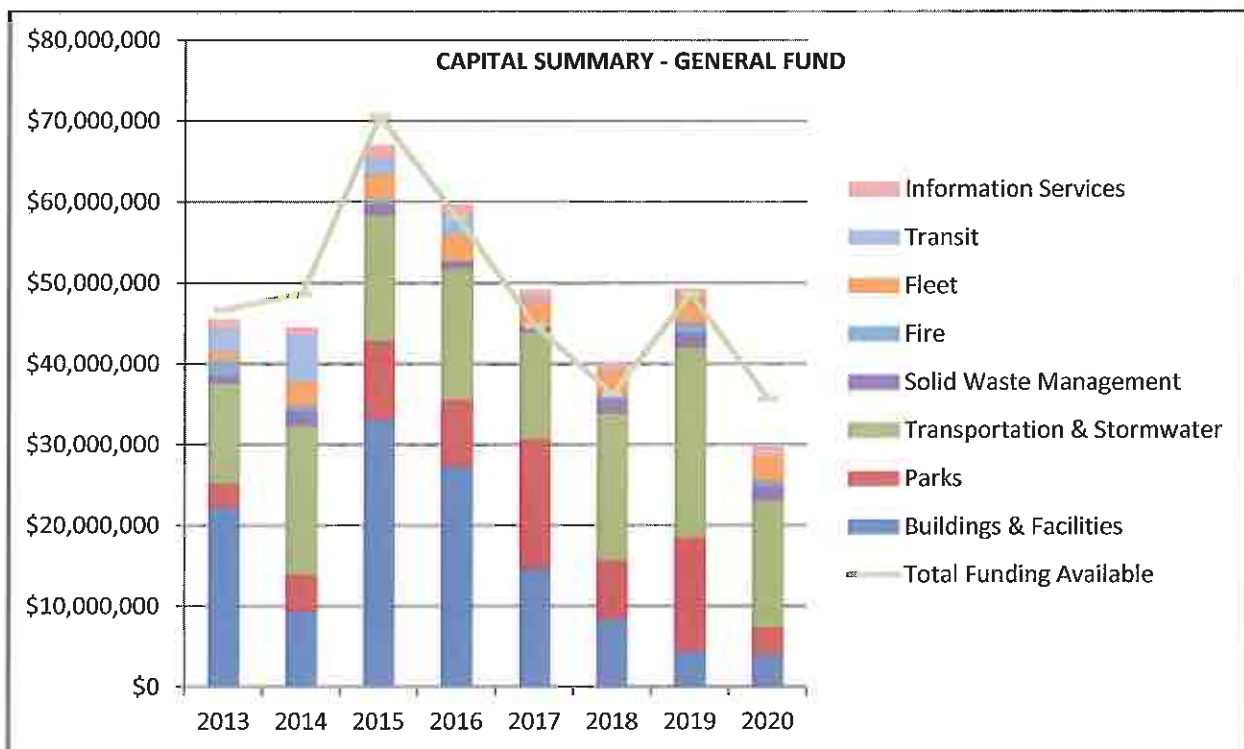
- “What do we need?”
- “Why do we need it?”
- “How are we going to pay for it?”

Answering these three questions allows the City to anticipate current and future cost pressures, stretch the limits of our revenues by source, and make the necessary decisions to put in place essential infrastructure to support a future Kelowna. By doing so, this plan will help maximize the investment in the community where and when it is most needed.

Financial/Budgetary Considerations:

Capital Projects:

The chart below shows the cost summary for capital projects from the General Fund Departments. The bars show the total capital cost for the listed year and each bar is further subdivided by colour into the respective cost centre (i.e. Transportation, Buildings, Parks, etc.). The line at the top of the chart is the estimated amount of available funding and shows that the capital requests are for the most part within funding limits. Once Councils comments have been received the 2020 Plan will be further refined to match capital costs against available funds. Note that this chart reflects the General Fund Departments and does not include capital for water, wastewater and electrical utilities or the airport. These have been done separately and are also planned within the anticipated revenue streams.

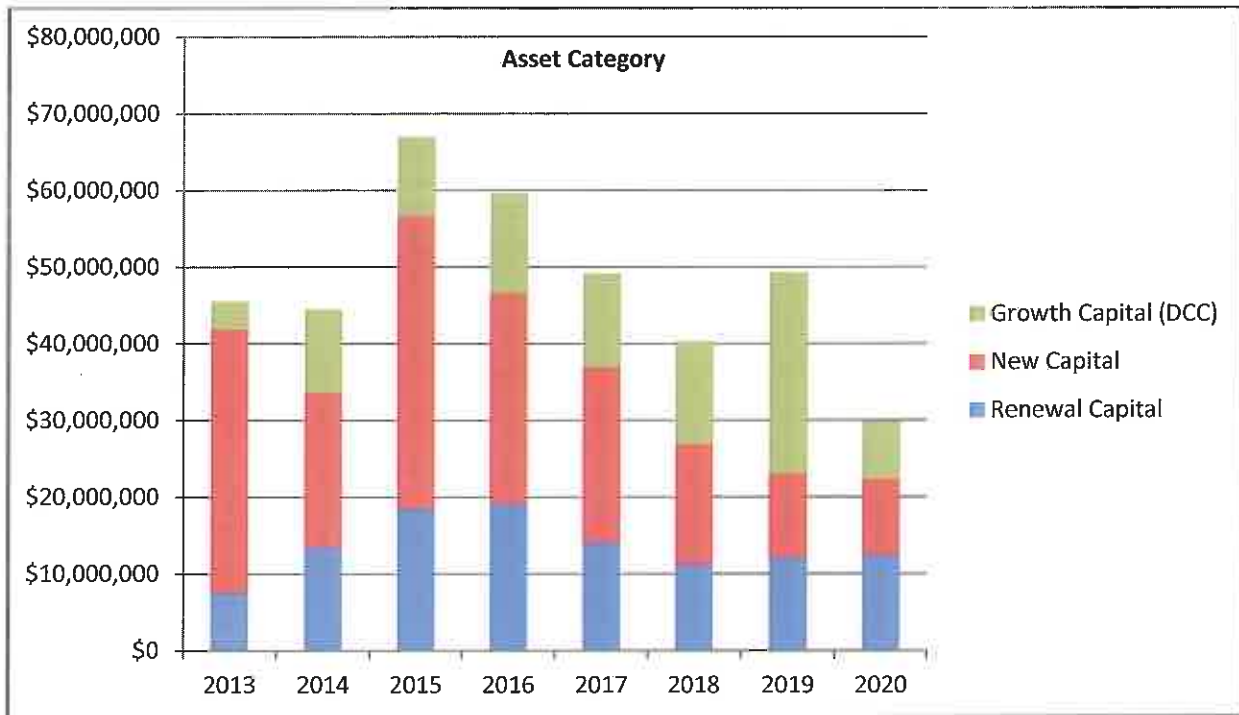


It should be noted that any capital impacts resulting from changes to the Transit Operating Centre are currently not known and will appear in the City's operating budget. The chart below highlights some of the major projects in the 2020 Plan.

Project	Cost (million)	Year
Library and Memorial Parkades	\$17.5	2013
Lakeshore Bridge, Road and Sewer Replacement	\$15.3	2014-2016
KLO Transit Exchange	\$2.4	2013
RCMP Building	\$41.6	2014-2016
Parkinson Recreation Centre	\$22.4	2015-2017
John Hindle Dr	\$9.0	2014-2017
Sutherland Active Transportation	\$11.5	2017-2019
Ethel St Active Transportation	\$12.3	2016-2019
Rutland 2 (Rutland North realignment)	\$3.4	2017
DCC Parkland Acquisition	\$29.5	2013-2020
Rowcliffe Park (Central Green)	\$3.8	2017
Stuart Park Phase 2	\$1.9	2013-14
Houghton to Rails with Trails Active Transportation	\$5.9	2019-2020

All capital projects in the 2020 Plan have been divided into three main categories related to infrastructure required to service properties to accommodate growth (*Growth*: the DCC program), asset renewal and replacement (*Renewal*), and new non-DCC capital to accommodate growth and levels of service changes (*New*).

The ***New Capital*** category which includes projects required to accommodate non-DCC growth (e.g. RCMP and PRC) or to support economic development (i.e. Library and Memorial Parkades) accounts for \$180 M or about 47% of the General Fund portion of 2020 plan.

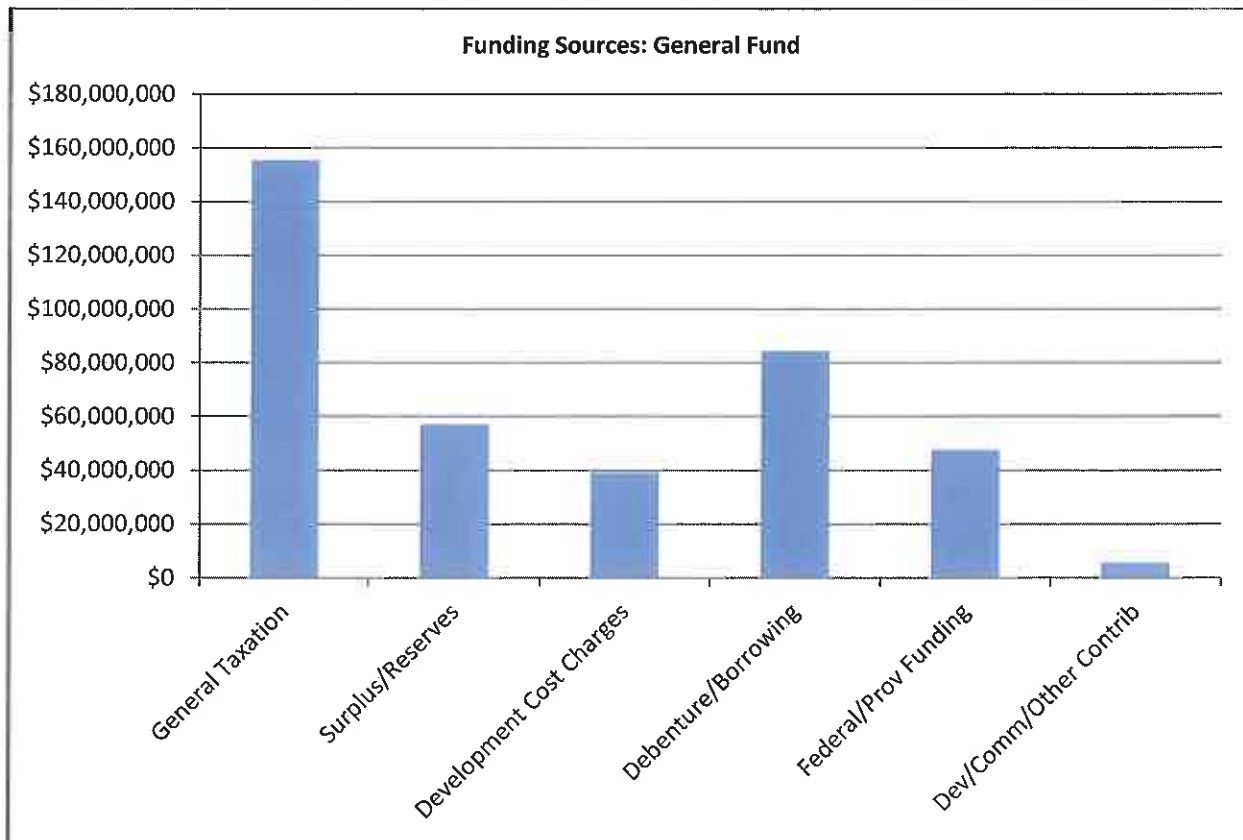


The 2020 Capital Plan places an emphasis on asset renewal with approximately \$108 M (28%) of the plan attributable to **Renewal Capital** and represents an average of about \$13.5 M per year. Despite this emphasis, however, the 2020 Capital Plan only achieves about 55% of the estimated requirement for renewal. Further, this does not take into account funds that should be set aside in reserves for years beyond 2020 when asset renewal costs are expected to increase significantly.

Projects required to accommodate **Growth Capital (DCC)** account for \$97M or 25% of the 2020 Plan. This lower number reflects the slowdown in development and the DCC revenue stream in Kelowna and as such some of the Growth projects in the 20-year Servicing Plan and Financing Strategy have been deferred.

Funding:

There are six major funding sources that support the 2020 Plan which include: Taxation, Surplus/Reserves, DCC Reserves, Debenture/Borrowing, Federal/Prov Grants, and Developer/Community Contributions. The funding amount for each source over the duration of the plan is shown in the chart below.



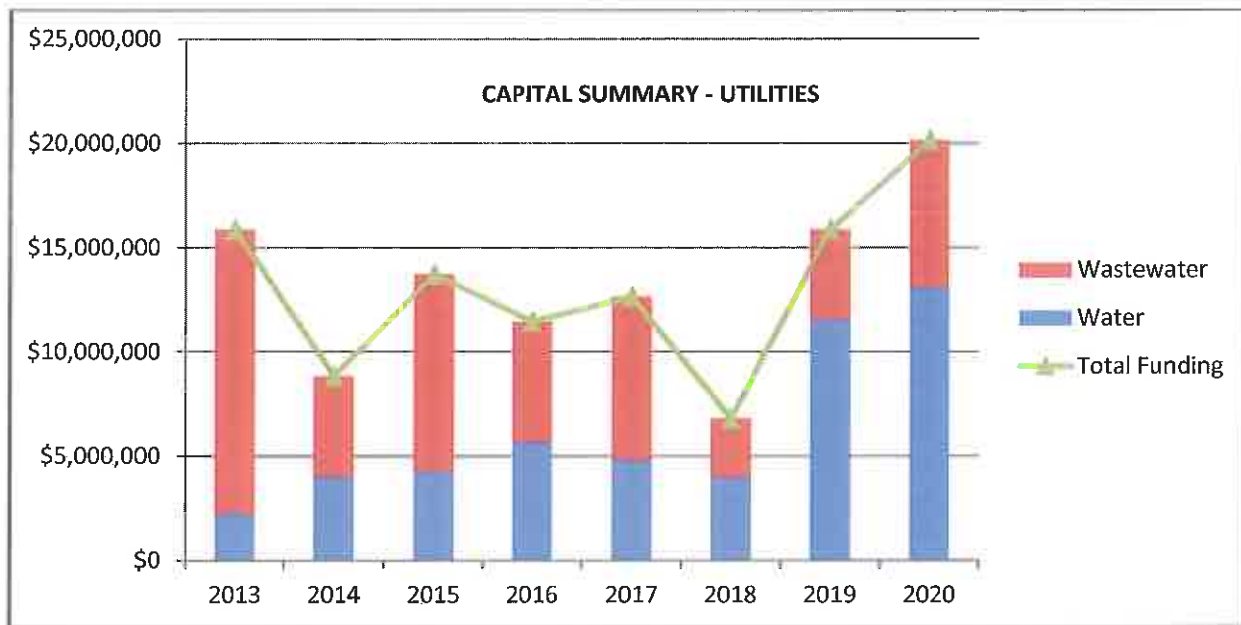
The largest funding source for the General Program of the 2020 Plan is taxation. It was assumed for planning purposes that Kelowna will continue to grow on average at 1.7% per year until 2020 and that the average annual net tax increase will be 2% during this time. Historically 40% of the tax revenue generated from new growth is allocated to the capital program. Using these assumptions the projected tax available for capital projects is projected to increase from \$16.1M in 2013 to \$22.2M in 2020 and will total of \$155M over the next 8 years.

The next major funding source for the 2020 Plan will be from borrowing at approximately \$84 M. This funding is required for the Library and Memorial Parkades, the RCMP Building and the new Parkinson Recreation Centre. All loans are subject to taxpayer assent. The business case for the repayment of these loans would be different in each case. For instance the parkade loans will be repaid through parking revenues. The others may be offset either by tax increments or operating efficiencies.

The 2020 Plan is also funded from DCC reserves (\$39 M), Surplus/Reserves (\$57 M) Federal/Prov grants (\$48 M) and Developer/Community Contributions (\$5.5 M).

Water and Wastewater Utilities:

The chart below shows the cost summary for capital projects for the Water and Wastewater Utilities. The bars show the total capital cost for the listed year and each bar is further subdivided by colour into Water and Wastewater capital projects.



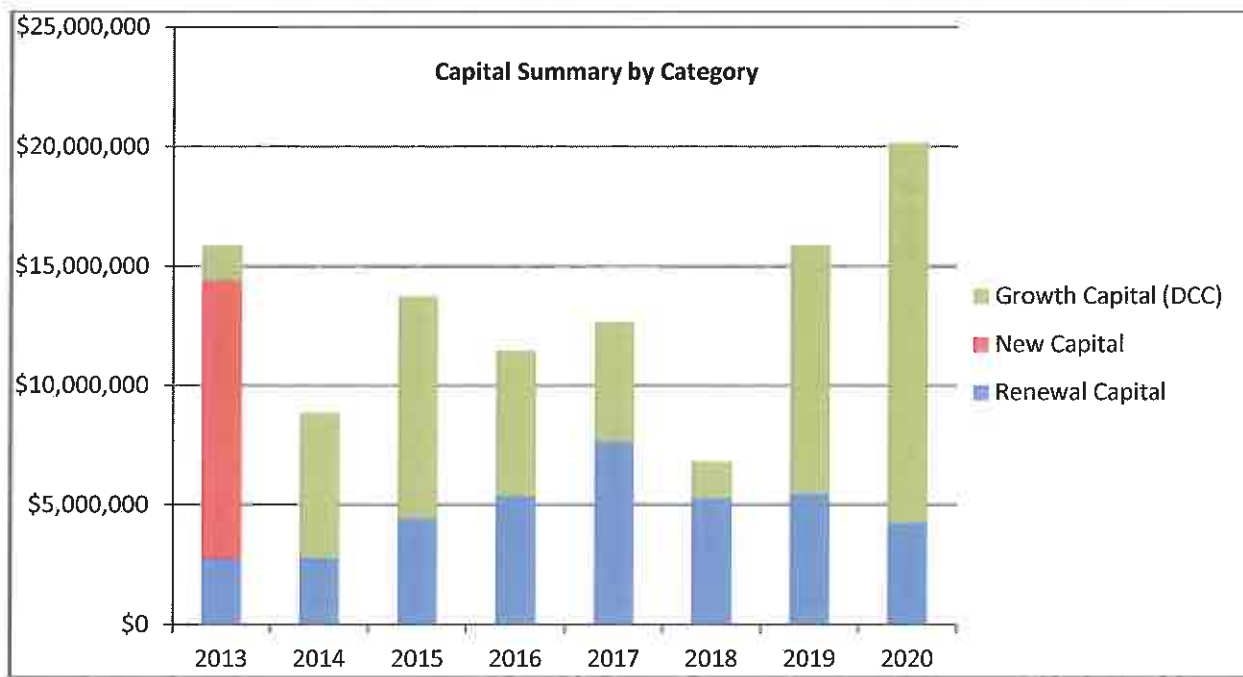
There are number of large Water and Wastewater projects scheduled in the 2020 Plan (below table). The Hall Rd Sewer Project is scheduled in 2013 and is dependent on a grant and public support from the Hall Rd area. Lakeshore Sewer replacement is planned for 2014-2017 in coordination with the bridge replacement and road work. Several sewer lift stations are nearing the end of their service life and will need to be replaced at a cost of \$7.0 million in the next 8 years.

Within the Water Utility all residential water meters will need to be replaced starting in 2014. Also listed are several large watermain projects required to accommodate growth and to meet the City's commitments with Interior Health for Water Filtration Deferral.

Project	Cost (million)	Year
*Hall Rd Sewer	\$11.3	2013-2014
*Lakeshore Sewer	\$11.2	2014-2017
Sewer Lift Stations	\$7.0	2015-2020
Water Metres	\$3.9	2014-2016
Royal View and Mountain Watermain Upgrade	\$6.5	2014-2015
Southcrest Transmission System	\$10.3	2019
Knox Mountain Water Transmission Main	\$3.5	2020
Cedar Creek Water Transmission System Stage 2	\$8.3	2020

* Dependant on grant

The **New Capital** category for Water and Wastewater which includes projects required to accommodate level of service improvement (e.g. Hall Rd Sewer) account for \$11.6 M or about 11% of the Water and Wastewater portion of 2020 plan. Asset **Renewal** accounts for \$38 M (36%) and projects required to accommodate **Growth Capital** require \$56M (53%) in the 2020 Plan (see following chart).



Operational Impacts of 2020 Plan:

The proposed capital works in 2020 Plan amounts to \$490 M of which \$146 M would go towards renewal of existing infrastructure. The balance of the program (New Capital + Growth Capital) would be new infrastructure which requires additional money to operate and maintain. Depending on the infrastructure system a “high level” estimate of the annual O&M costs are typically 2-3% of the capital cost. The new infrastructure accounts for \$344 M in the 2020 Plan. If an average of 2.5% is assumed, the additional O&M money required to support the new infrastructure would be approximately \$8.6 M/year when this capital plan is fully built out in 2020. The business case to finance this increment would depend on the total impact of changes to other operational demands each year. Inclusion of the O&M consequences of capital has traditionally been included in the annual capital plan. Over time, this information will also be included in the longer term Financial Plans.

Next Steps:

Council comments and direction are requested on additions, deletions or changes to be considered within the 2020 Plan. Based on this input project details, costs and timing can be refined by staff with the expectation to report back to Council with the complete 2020 Plan for Council’s endorsement in time for inclusion in the 2013 Financial Plan that forms part of the 2013 Final Budget.

Summary:

The 2020 Plan is an integral part of the comprehensive Five Year Financial Plan required annually under the Community Charter. It is the central focus for the planning and financial management decision-making process. The 2020 Plan is expected to provide Council and Staff with the guidance required to inform current and future capital expenditure decisions. A reference to the plan will be required for all capital related reports forwarded to Council. Any projects introduced that are outside of the 2020 Capital Plan will require a detailed rationale for the project and the impact it will have on the capital plan. The priority of new projects will need to be related to the existing projects and a description provided as to how the plan will be amended with the addition of the project.

Endorsement of this plan will assure Council that the direction they set is being maintained and that there is a complete justification for any variations from the plan. Compliance with the plan will also assure the community that growth is being managed in an orderly and affordable manner.

Internal Circulation:

Acting General Manager of Community Sustainability
Director, Financial Services
Director, Infrastructure Planning
Director, Real Estate and Building Services
Director, Communications,
Director, Operations
Director, Design and Construction

Considerations not applicable to this report:

Existing Policy:
Legal/Statutory Authority:
Legal/Statutory Procedural Requirements:
External Agency/Public Comments:
Communications Comments:
Alternate Recommendation:

Submitted by:

Melanie Antunes

For J. Shaw, P.Eng., Capital Assets & Investment Manager

Approved for inclusion:



R. Cleveland MAIBC, Director, Infrastructure Planning

cc: Director, Financial Services
Director, Infrastructure Planning
Director, Real Estate and Building Services
Director, Communications,
Director, Operations
Director, Design and Construction

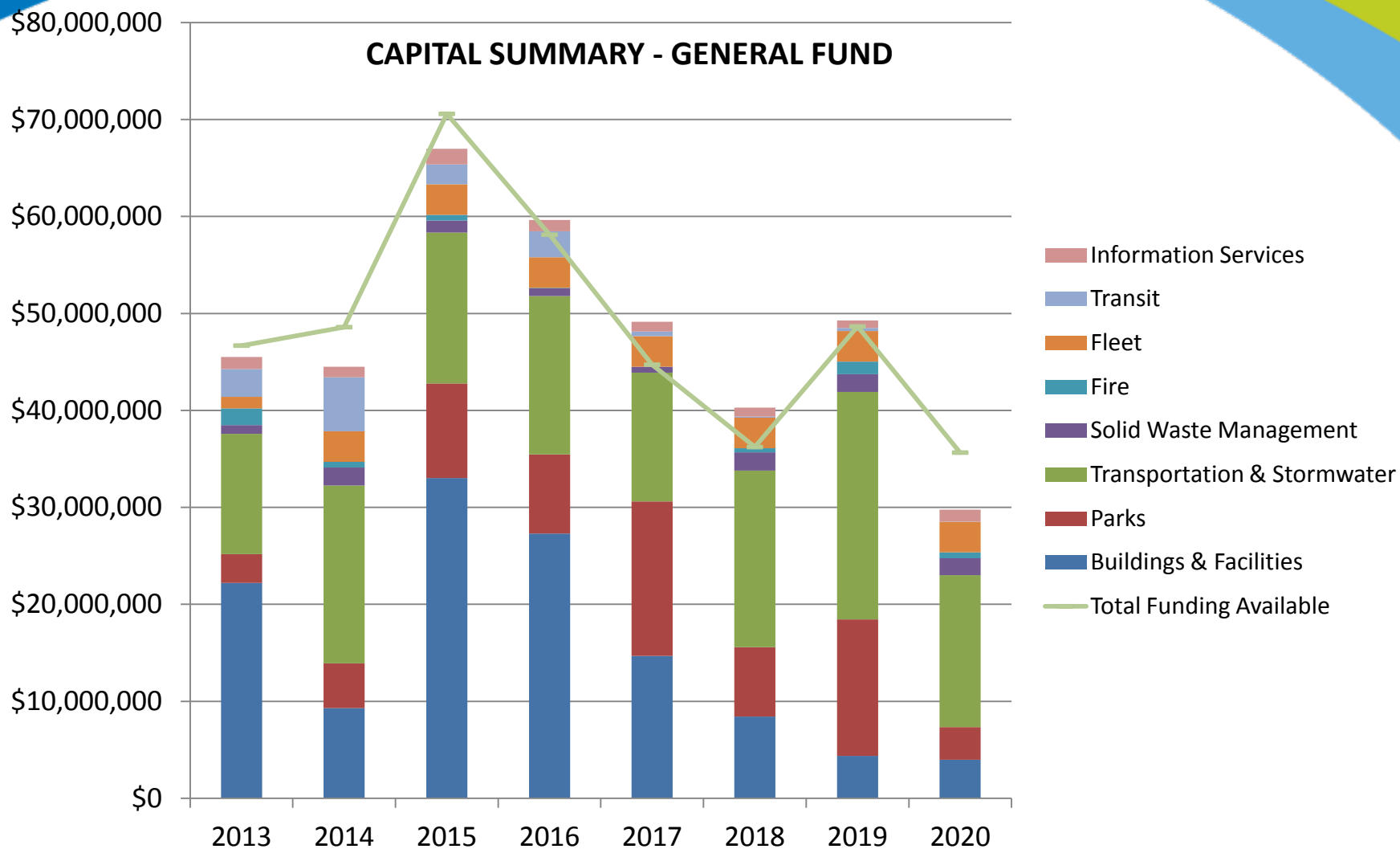
2013 - 2020 CAPITAL PLAN

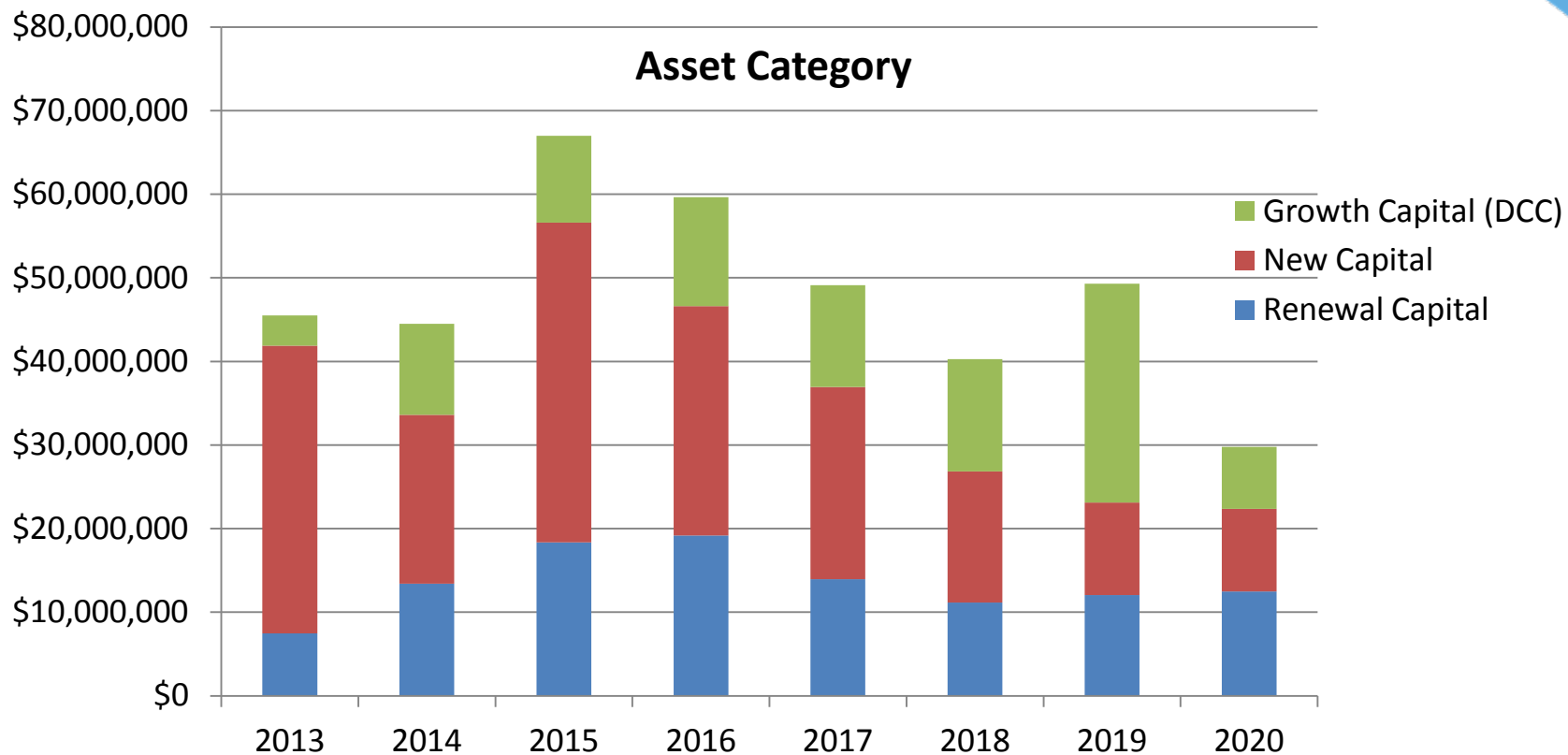
Report to Council, 2012.11.19



Council goals and priorities:

- ▶ Grow our economy
- ▶ Re-investment in existing assets
- ▶ Enhance citizen's quality of life
- ▶ Protect natural environment
- ▶ Align & coordinate portfolio of projects

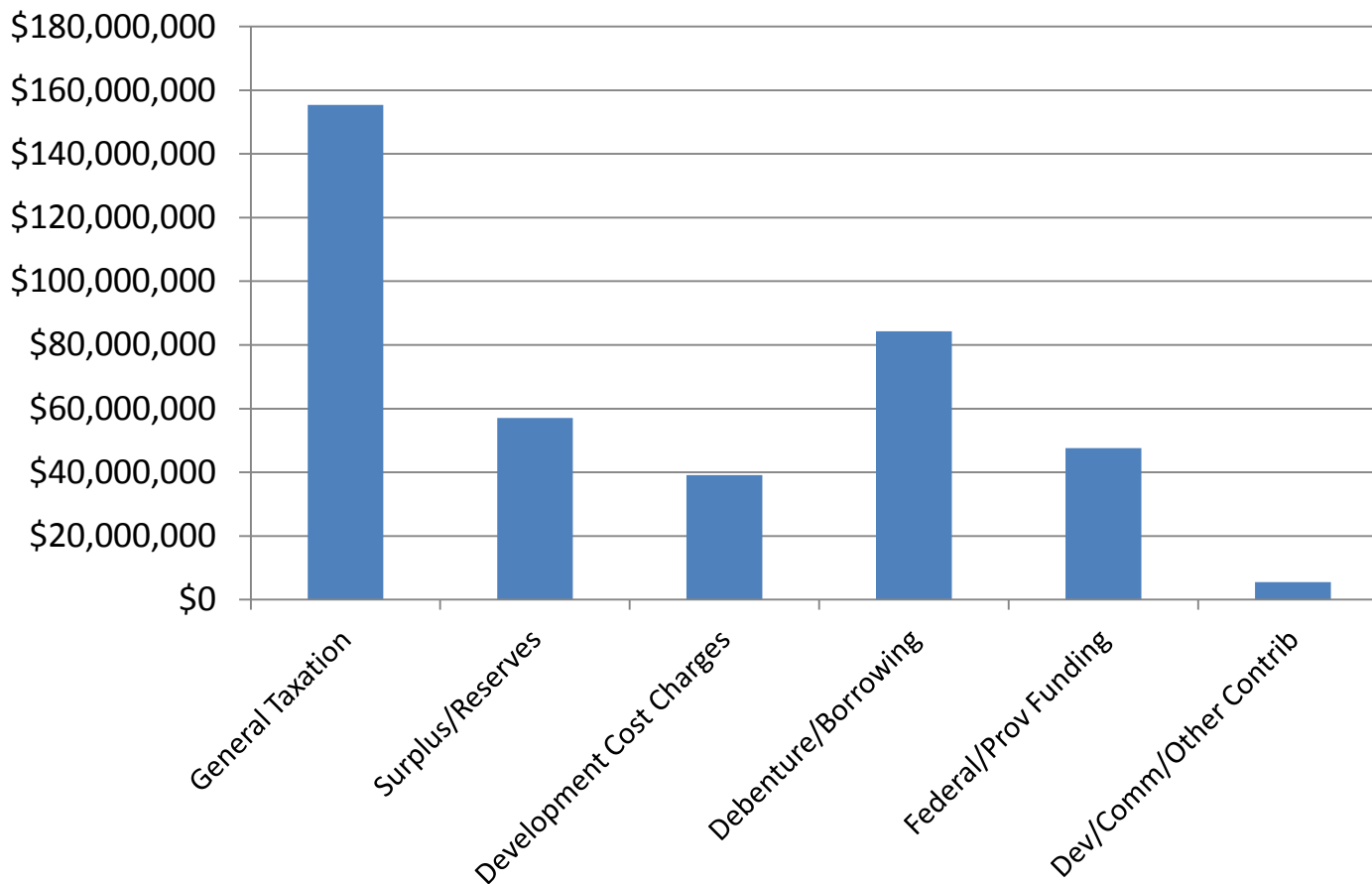




FUNDING SUMMARY

2013 - 2020

Funding Sources: General Fund



NEXT STEPS

- ▶ Revise plan based on Council comments
- ▶ Report back to Council