

Report to Council



Date: June 10th, 2019
File: 0220-30
To: City Manager
From: Infrastructure Engineering Manager
Subject: 10- year Capital Plan (2019 to 2028)

Recommendation:

THAT Council receives, for information, the report from the Infrastructure Engineering Manager dated June 10th, 2019, with respect to the 10-Year Capital Plan;

AND THAT Council provide direction for infrastructure investment within the 10-Year Capital Plan and for use of the Infrastructure Levy Funding;

AND THAT based on Council's direction, staff report back to Council with the amended 10-Year Capital Plan for endorsement.

Purpose:

To provide Council with the 10-Year Capital Plan for their review and direction prior to endorsement.

Background:

This update to the 10-Year Capital Plan forecasts the City's infrastructure needs from 2019 – 2028. The population of Kelowna is expected to increase by 20,000 to 152,000 over this timeframe and the 10-Year Capital Plan forecasts \$1.24 billion in infrastructure investment required to accommodate growth, enhance services and renew existing infrastructure assets.

The 10-Year Capital Plan is guided by the direction set by Council in the 2030 Infrastructure Plan but is updated annually to be responsive and practical. The 2030 Infrastructure Plan was endorsed by Council in 2016 and since that time there have been a few changes. The 10-Year Capital Plan reflects these changes and strikes an affordable balance of infrastructure projects that maintain services, preserve existing assets and provides opportunity for growth and economic development.

The 10-Year Capital Plan is based on the best available information at the time of preparation. As with any capital plan, there are risks with the assumptions associated with funding, construction costs, community priorities and changing legislative requirements. To respond to these changing conditions,

the City is committed to updating the 10-Year Capital Plan on an annual basis so that the plan remains accurate, responsive and practical. By doing so, the 10-Year Capital Plan will help maximize the infrastructure investment in the community where and when it is most needed.

A summary of the 10-Year Capital Plan is provided below and the reader is directed to the attached 10-Year Capital Plan for complete details.

Infrastructure Investment Summary

The 10-Year Capital Plan forecasts \$1.24 billion of capital investment across 12 asset service areas (Fig. 1).

Guided by Council and Corporate priorities proposed capital investment will focus in the following areas:

- Renewal of critical aging infrastructure,
- Flood protection infrastructure to protect the community against the effects of climate change,
- Transportation and mobility infrastructure making it easier for all people to get around by vehicle, transit, cycling and walking,
- Community amenities like recreation centres, parks and public space to keep pace with Kelowna’s population growth and the evolving needs of its residents,
- Airport development to support more than 2 million passengers annually.

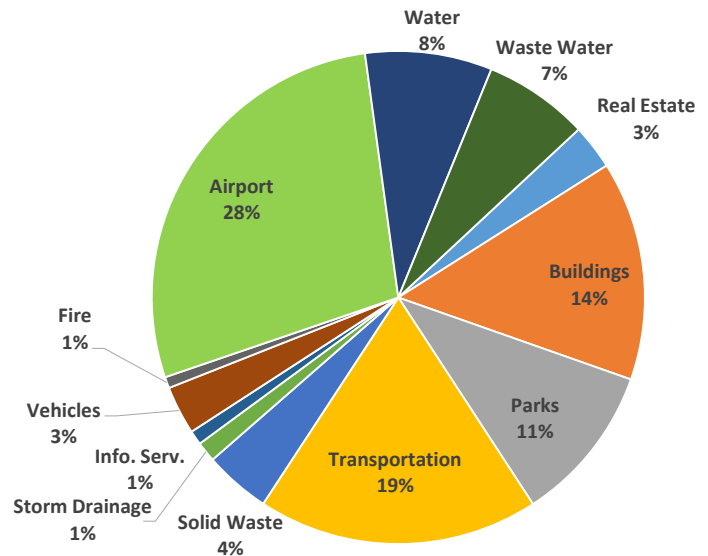


Fig. 1. Investment by service area \$1.24 billion.

Several funding sources support the planned infrastructure investment including: Taxation, Gas Tax, Surplus/Reserves, DCC Reserves, Borrowing, confirmed Grants, Developer/Community Contributions, Municipal Works Reserve, Utility and Airport revenues (Fig. 2). The general taxation share of funding is \$171 million and represents 13% of the total infrastructure investment.

Council approved an Infrastructure Levy (IL) in the 2019 Budget (discussed later in report). The Infrastructure Levy will generate \$3.0 million of additional revenue in 2019 and \$5.6 million per year thereafter.

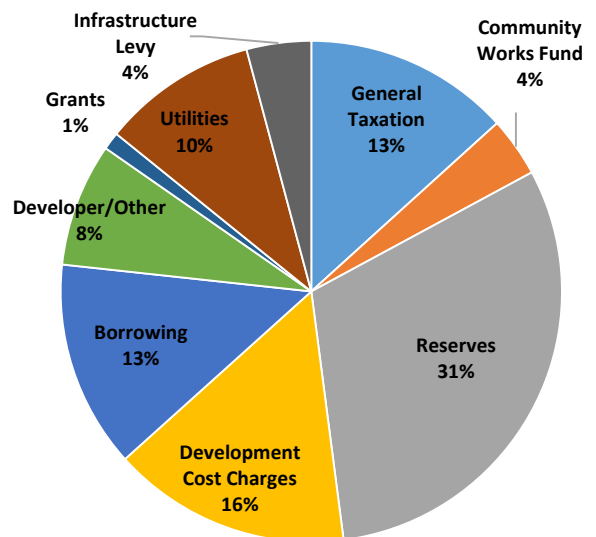


Fig.2. Available funding by source \$1.3 billion including Infrastructure Levy.

Over the next 10-years the Infrastructure Levy(IL) will provide an additional \$54 million available for infrastructure investment bringing the available funding to \$1.3 billion.

The IL funds have not been allocated and are available to Council to assign to priority project(s) during their review of this and future 10-Year Capital Plans. As discussed later in this report, Staff have identified for Council's consideration several high priority projects, that align with Council's priorities, Corporate focus areas or the theme areas from Imagine Kelowna.

The previous 10-Year Capital Plan was endorsed by Council in July 2018 and since that time there has been a few notable changes. Construction costs have increased significantly in the past year as Kelowna is in a period of growth with labour and materials in high demand. In addition, new projects have been added to the 10-Year Capital Plan and the scope of existing projects has expanded to enhance services and support growth. Lastly, the planning horizon for this update has been moved ahead by one year (2019 - 2028) compared to the previous approved 10-Year Capital Plan (2018 – 2027). By moving ahead one year, the planning horizon now includes several significant projects that were planned for in the 2030 Infrastructure Plan.

Total infrastructure investment has increased by \$184 million to \$1.24 billion in the updated 10-Year Capital Plan for P1 projects. The drivers for the increase are noted below. This list is not comprehensive and does not include many of the smaller changes related to cost increases and reductions, project additions and deletions and impacts related to project timing (see Appendix of 10-Year Capital Plan for change summary).

- Buildings (\$30 million increase)
 - Parkinson Recreation Centre – Site work & field relocation - \$16 million (new project)
 - Parkinson Recreation Centre – Building Replacement - \$20 million (cost increase)

- Transportation (\$30 million increase)
 - Central Green Pedestrian Overpass advanced from 2030 to 2021 - \$5.5 million
 - The planning horizon for this update has been moved ahead by one year (2019 -2028) compared to the previous approved 10-Year Capital Plan (2018 – 2027). By moving ahead one year, the planning horizon now includes several significant DCC road projects in 2028 valued at \$32 million. These projects were planned for in the 2030 Infrastructure Plan.

- Water (\$35 million increase)
 - Water Network Renewal and Upgrades – \$30 million (new projects and cost increases)

- Airport (\$88 million increase)
 - Airport Hotel and Parking Development- \$32 million (new project)
 - Airport Mill Creek Realignment - \$13.5 million (new project)
 - Mill Creek Realignment – \$13.5 million (new project)
 - Airport Terminal Expansion South - \$33.6 million (cost increase)

Operational Impacts

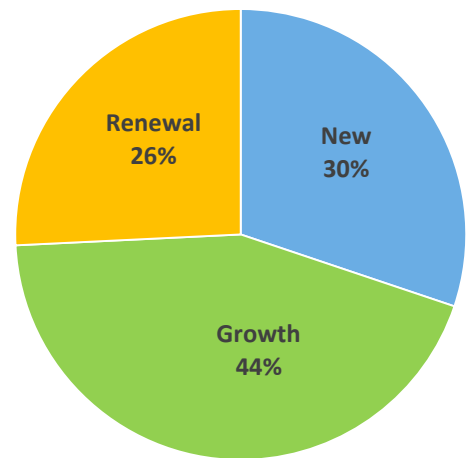
Renewal of existing infrastructure is assumed to have no operational impacts because operational budgets are currently in place to support existing infrastructure. However, the 10-Year Capital Plan forecasts \$854 million of new infrastructure to accommodate growth and improve services to the community. This new infrastructure will require additional funding to operate and maintain. The operational impacts for the self-funded service areas including Water, Wastewater, Solid Waste and Airport will be accounted for in their respective funding models. The General Fund cost centers (Real Estate, Buildings, Parks, Transportation, Storm Drainage, Information Services and Vehicles) will require an additional \$8.7 million annually to operate and maintain this new infrastructure.

Priority 2 Projects

Infrastructure projects that are lower priority and not fully funded are termed Priority 2 (P2) projects. P2 projects amount to \$596 million in the 10-Year Capital Plan and include projects to accommodate growth, enhance services, and renew existing assets (Fig. 3).

Several large P2 projects are contingent on funding from other sources (i.e. DCC's, grants, utilities or partnerships). Projects include:

- Clement 2 (Hwy 33 Ext.) - \$57 million
- Airport Exchange - \$35 million
- Transit Facility - \$65 million
- Kelowna Community Theatre - \$68 million
- Wastewater Digester - \$49 million



P2 total = \$596 million

Fig. 3. P2 Investment shortfall by asset category.

Table 1 provides a breakdown of funding sources and shows that the City requires approximately \$398 million to fund its share of P2 projects. This funding shortfall, or Infrastructure Deficit, has decreased from the previously reported (2018) value of \$478 million.

Table 1 - Assumed infrastructure funding sources for P2 projects.

INFRASTRUCTURE CATEGORY	Funding		
	Cost	City	Other*
Renewal	\$167	\$156	\$11
Growth	\$286	\$154	\$133
Service Level Improvements	\$196	\$142	\$54
Less: Infrastructure Levy	(\$54)	(\$54)	\$0
TOTAL	\$596	\$398	\$198

*Other includes DCC's, Grants, Utilities and Partnerships.

The funding source(s) for the \$398 million infrastructure deficit have not been identified and will be the focus of further analysis over the coming months.

Infrastructure Levy

Council approved a 1.95% Infrastructure Levy (IL) in the 2019 Provisional Budget. Additional funding from new construction revenue (\$435,000) was approved at Final Budget that brings the IL to 2.27% in 2019. The infrastructure levy (IL) will be included in both the 2019 and 2020 budgets, and ongoing thereafter. The amount to be contributed over the next 10 years to the IL reserve is as follows:

Table 2 - Projected revenue from infrastructure levy (\$millions)

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Total	\$3.0	\$5.6	\$5.6	\$5.6	\$5.6	\$5.6	\$5.6	\$5.6	\$5.6	\$5.6	\$53.8

Note: Contributions to the Infrastructure Levy Reserve are ongoing.

A portion of New Construction Revenue funding (\$435,000) was added to IL so that it is purposefully directed to the Infrastructure Deficit funding that Council had endorsed giving Council assurance that the funding will be used for this purpose.

As noted previously, funding from the Infrastructure Levy has not been allocated and is available to Council to assign to priority project(s). Staff have identified for Council’s consideration several high priority projects to be funded by the Infrastructure Levy funds in 2019 and 2020.

2019 (total \$3.0 million)

- **Transportation Renewal - \$2 million**
Recent road, bridge and transportation infrastructure condition assessments have identified increased renewal investment required to maintain the current service level for the City’s transportations network. The IL funds will be allocated to the road resurfacing program, traffic control, street lights, bikeway, and bridge rehabilitation programs.
- **Mill Creek Drainage Improvements - \$1 million**
The City received a 40% grant from Infrastructure Canada to fund the \$55 million Mill Creek Flood Protection Project that will be completed over the next ten years. The City does not have all of the matching funds needed to leverage the full amount of the grant, however. The IL funds will leverage the matching 40% grant and the combined \$1.67 million investment will advance critical flood protection work along Mill Creek.

2020 (total \$5.6 million)

- **Parks Development - \$3 million**
Subject to further consultation and Council approval, a Parks Development DCC may be implemented as soon as 1 Jan 2020, focusing initially on Neighbourhood and Community Parks. The Infrastructure Levy can be leveraged as the matching municipal contribution for the first DCC development projects. Recommended City priorities would be to bring the completion of Rutland Centennial Park forward and Dehart Park.

- Mill Creek Drainage improvements - \$1.0 million
The IL funds will leverage the matching 40% grant and the combined \$1.67 million investment will advance critical flood protection work along Mill Creek.
- Transportation Renewal - \$1.6 million
The IL funds will be allocated to the road resurfacing program, traffic control, street lights, bikeway, and bridge rehabilitation programs.

Gas Tax Funding

The Federal Government announced in the 2019 Budget a one-time transfer of funding through the federal Gas Tax Fund to address short-term priorities in municipalities and First Nation communities. Kelowna will receive \$5.2 million in 2019 on top of the scheduled allotment from the Federal Gas Tax Agreement – Community Works Fund Allocations.

Staff recommend using a portion (\$3.7 million) of this funding to advance the Central Green Pedestrian Overpass for construction in 2020/21. The balance of this \$5.5 million project will be funded from the Land Sales Reserve. The Overpass, which was previously scheduled for 2030, is a Ministry of Transportation and Infrastructure requirement for rezoning of the Central Green development and will allow access across Hwy 97 and increase connectivity to and from downtown.

The remainder of the additional Gas Tax funding will be held in reserve and used for future priority infrastructure investment.

Financial/Budgetary Considerations:

The 10-Year Capital Plan is based on sound financial information and assumptions and will be used to guide the annual capital plan as part of the annual budgeting process. The 10-Year Capital Plan is a forecast of infrastructure projects, as Council's approval of these projects occurs during the annual budget process.

Internal Circulation:

Divisional Director, Infrastructure Division
Deputy City Manager
Divisional Director, Active Living and Culture
Divisional Director, Human Resources & Community Safety
Divisional Director, Partnerships & Investments
Divisional Director, Planning & Development Services
Divisional Director, Financial Services
Airport Director
Financial Planning Manager
Fire Chief
Fleet Services Manager
Information Services Department Manager
Infrastructure Operations Department Manager
Parks & Buildings Planning Manager
Transportation Engineering Manager

Utility Services Manager

Considerations not applicable to this report:

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

Submitted by:

J. Shaw, Infrastructure Engineering Manager

Approved for inclusion:



A. Newcombe, Infrastructure Divisional Director

Attachment 1 - 10-Year Capital Plan (2019 – 2028)

Attachment 2 - 10-Year Capital Plan Presentation

cc:

Deputy City Manager
Divisional Director, Active Living and Culture
Divisional Director, Human Resources & Community Safety
Divisional Director, Partnerships & Investments
Divisional Director, Planning & Development Services
Divisional Director, Financial Services
Divisional Director, Infrastructure Division
Airport Director