Report to Council

Date: November 23, 2020

To: Council

From: City Manager

Subject: 10-Year Capital Plan (2020 to 2029)

Department: Infrastructure Engineering

Recommendation:

THAT Council receives, for information, the report from the Infrastructure Engineering Manager dated November 23rd, 2020, with respect to the 10-Year Capital Plan;

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 2020 – 2029. The population of Kelowna is expected to increase by 22,000 in this timeframe and the *10-Year Capital Plan* forecasts $1.32 billion in infrastructure investment required to accommodate growth, enhance services, renew existing infrastructure assets and address climate change. The proposed infrastructure is a critical component to ensure Kelowna is well positioned to recover and emerge stronger after COVID-19. The 2020 Citizens Survey indicated the majority of people enjoy a good quality of life and receive good value for their tax dollars – good asset management are key to both metrics.

The development of this year's *10-Year Capital Plan* was delayed by the onset of COVID-19. The annual update to the *10-Year Capital Plan* is usually completed in the first half of each year but given the challenges brought on by the pandemic the update was deferred until November. There have been significant financial impacts related to the pandemic and these impacts have negatively affected the City's capital funding capacity ongoing. These impacts have been offset somewhat by the City's strong financial management in the past including reserves, the new infrastructure levy and the new Parks Development Cost Charge (DCC) introduced in 2019 and February 2020 respectively. However, there continues to be a capital funding shortfall with the City's infrastructure deficit estimated to be $377 million over the next 10-years.

The *10-Year Capital Plan* is guided by the direction set by Council in the *2030 Infrastructure Plan* and is updated annually to respond to the ever-changing environment. 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 a 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.

Financial Shifts

Since the last update to the *10-Year Capital Plan* in 2019 there have been several major factors that have affected the City's capital funding capacity both positively and negatively. These include the COVID-19 pandemic, new Parks Development Cost Charge, new infrastructure levy and infrastructure construction cost escalation.

Pandemic Reductions

The onset of the COVID-19 pandemic in March of 2020 impacted Kelowna in a profound way that continues today as the second wave of the pandemic intensifies. The final 2020 budget was reduced from 4.15% to 2.05 % in March 2020 at the beginning of COVID-19. This tax reduction was achieved largely by deferring planned capital investment in 2020 in the amount $24 million of which $5 million was funded from taxation.

The $5 million reduction in taxation in 2020 has long-term financial impacts as it is ongoing. The taxation funding for capital is referred to as Pay As You Go (PAYG) capital taxation and each year it is forecast to increase by 40% of new construction taxation revenue that comes from growth in the community (Figure 1 – blue bars). When PAYG is reduced it lowers the taxation funding in the specific year and affects future years as the new construction taxation revenue is applied to the lower base amount (Figure 1 – red line). The bottom line is that the $5 million reduction in PAYG capital

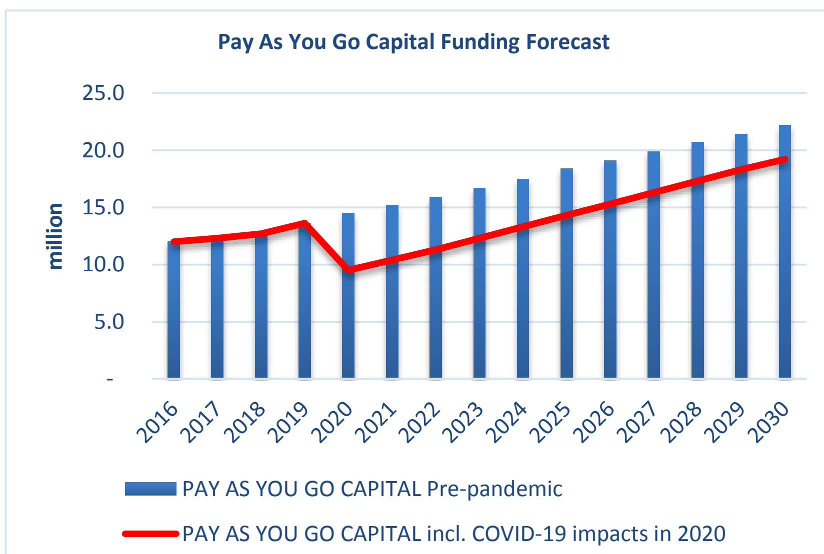

Figure 1 - Pay As You Go Capital forecast.

funding in 2020 results in a $41 million reduction in forecasted PAYG capital funding in the 10-years (2020-2029).

The recently announced Provincial Safe Restart Program funding has provided an opportunity to increase the PAYG capital taxation by $1.42M to be deliberated as part of the 2021 Preliminary Budget. If approved, the funding would reduce the ongoing $5M reduction impact from 2020 to $3.6 million. This additional funding would add $14 million in PAYG capital taxation in the next 10-years and would be included in the next update of the 10 Year Capital Plan.

Given the reduction in PAYG, the City maximized the use of existing reserves to offset the funding shortfall. Capital reserves that were fully utilized include Community Works Fund, Municipal Works Fund, Infrastructure Levy and Public Work and Equipment reserves. Moving forward these reserves no longer have any buffer to withstand further financial shock or fund unexpected projects.

Parks Development Cost Charge

Another financial shift in 2020 was the introduction of the Parks Development Cost Charge (DCC). In February 2020, Council approved a new Parks DCC that will generate $74 million in new revenue over the next 10-years to be used to build new park infrastructure and acquire parkland.

Infrastructure Levy

The Infrastructure Levy, introduced in 2019, will generate an additional $5.6 million per year over the next 10 years for a total of $56 million.

Cost Increases

It has been almost a year and a half since the last update to the *10-Year Capital Plan* and construction costs have continued to escalate across all infrastructure categories. Cost escalations, ranging from 2% to 12% depending on the infrastructure, have been built into this update and put further pressure on the City's ability to fund needed infrastructure.

The net result of these financial shifts is that capital investment in 10-Year Capital Plan remained about the same overall as previously forecasted but some cost centres fared better than others. Parks is in a much better position than a year ago because of the Parks DCC. COVID-19 illustrated the importance of park space with more than half of residents saying they increased their use of parks and outdoor spaces during the first six months of the pandemic. Buildings, Transportation and Storm Drainage relied heavily on reserves to increase investment but other cost centres like Water and Airport have considerably less infrastructure funding than forecast in the previous 10-Year Capital Plan.

It is worth noting that funding constraints have also caused projects to be deferred beyond the planning horizon of this 10-Year Capital Plan which defers the funding challenges to 2030 and beyond. These funding challenges will need to be addressed at some time in the future.

Infrastructure Investment Summary

The *10-Year Capital Plan* forecasts $1.32 billion of capital investment across 12 capital cost centres (Figure 2). Guided by Council and Corporate priorities proposed capital investment will focus in the following areas:

- Renewal of critical aging infrastructure,
- Parks acquisition and development,

- Transportation & mobility infrastructure making it easier for all people to get around by vehicle, transit, cycling and walking,
- Flood protection infrastructure to protect the community against the effects of climate change and flooding,
- Community amenities like recreation centres and public space to keep pace with Kelowna's population growth and the evolving needs of its residents,
- Airport development has been adjusted to align with passenger forecasts that incorporate the impact of COVID-19.

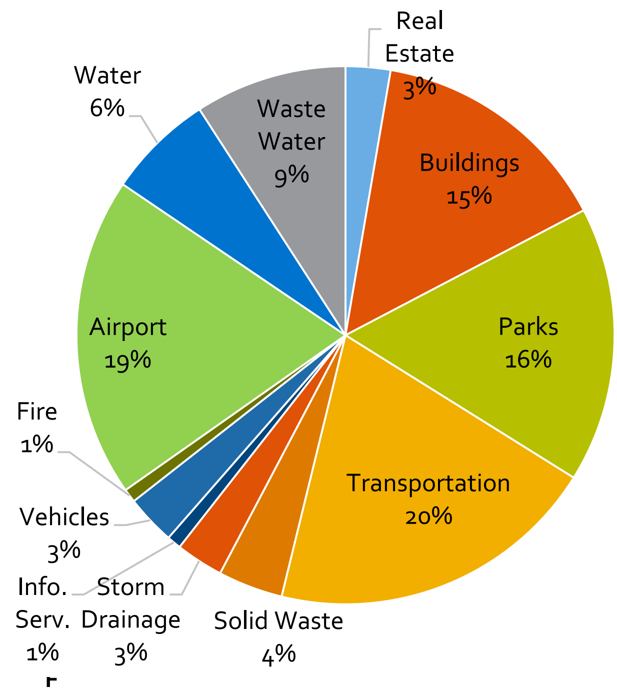

Figure 2 - Investment by cost centre $1.32 billion

Several funding sources support the planned infrastructure investment including: Taxation, Gas Tax, Reserves, DCCs, Debenture/Borrowing, confirmed Grants, Developer/Community Contributions, Utility and Airport revenues (Figure 3). The general taxation share of funding is $138 million and represents 10% of the total infrastructure investment. COVID-19 financial impacts have reduced taxation funding for capital by $41 million in the years 2020 - 2029.

The Infrastructure Levy funds have been fully allocated on projects that renew exiting assets like bridges and roads, accommodate growth and improve services in City Parks and natural areas and protect our community against climate change and flooding. The Infrastructure Levy funds are allocated as follows:

Cost Centre	Investment (million)	(%)
Parks	$15.6	28
Transportation	$27.1	48
Storm Drainage	$13.7	24
Total	**$56.4**	

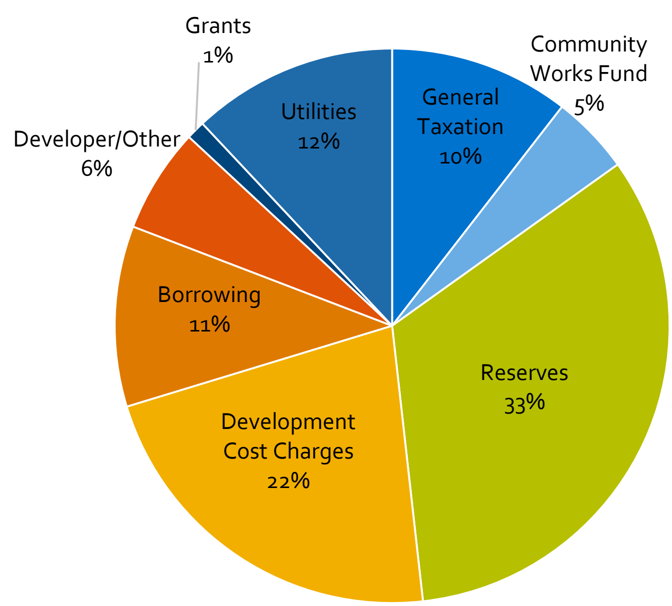

Figure 3 - Funding by source $1.32 billion.

The previous *10-Year Capital Plan* was endorsed by Council in July 2019 and, as discussed above, there have been a few significant financial shifts that have affected the City's infrastructure funding capacity and changed the timing of projects moving forward (Table 1).

TABLE 1 - Summary of investment changes by cost centre for funded (P1) projects.

Capital Cost Center	2020 10-Year Capital (2020-2029) ($ million)	2019 10-Year Capital (2020-2029) ($ million)	Difference ($ million)
Real Estate and Parking	$36	$37	-$1
Buildings	$199	$180	$19
Parks	$218	$136	$82
Transportation	$263	$248	$15
Solid Waste	$51	$54	-$3
Storm Drainage	$38	$18	$20
Information Services	$11	$11	$0
Vehicle or Mobile Equipment	$39	$43	-$4
Fire	$11	$9	$2
Water	$84	$118	-$34
Wastewater	$120	$82	$38
Airport	$253	$329	-$76
Unallocated Infrastructure Levy	$0	$45	-$45
Total	**$1,323**	**$1,310**	**$13**

Overall investment increased by $13 million to $1.32 billion in the updated *10-Year Capital Plan* for P1 projects. The more notable projects and changes between this update and the previous *10-Year Capital Plan* are listed below. This list is not comprehensive and does not include many of the smaller projects and changes.

- Real Estate and Parking
  - Overall net investment in Real Estate and Parking infrastructure has decreased by $2 million with reductions in both General Land Acquisition and Mill Creek restoration.
- Buildings
  - Overall net investment in Buildings infrastructure has increased by $19 million.
  - Parkinson Recreation Centre (Building, field realignment and parking): Project increase of $6.5 million for total project cost of $100 million.
  - Capital New Centre – Expansion – Project increase of $1.3 million for total project cost of $27 million.
  - Asset renewal investment increased by $7.8 million.
- Parks
  - Overall net investment in Parks infrastructure has increased $82 million.
  - DCC Parkland acquisition - Net investment increase of $8 million. Result of 2019 DCC program land cost increases and 2020 shift in Linear Park Acquisition moving from solely general fund to DCC program.
  - Park Development (Neighbourhood, Community, Recreation, City-wide, Linear) - Net investment increase of $73 million.

- Transportation
    - Overall net investment in Transportation infrastructure has increased $15 million.
    - DCC Roads and ATC – Net investment increase of $8.6 million. DCC program increased by 12% for construction costs and 25% for land components in 2019.
    - Transportation renewal projects - KLO Rd Mission Creek Bridge Replacement increased by $3.2 million to $8.4 million total project cost.
    - Overall Funding shifts:
        - Taxation decreased by $29.4 million driven by COVID capital cuts adopted in 2020 budget,
        - Proposed Infrastructure levy increase of $25.5 million; previous *10-Year Capital Plan* did not allocate all levy funds,
        - Community Works Fund (Gas tax) increased by $10.9 million,
        - DCC reserves increased by $8.8 million,
        - Municipal Works Fund decreased by $3.4 million.
- Solid Waste
    - Overall net investment in Solid Waste infrastructure has decreased by $3 million.
    - Stockpiles and Reprocessing Areas Relocation net investment decrease $12.9 million
    - Site improvements (multiple projects) – Net investment increase $5.3 million
- Storm Drainage
    - Overall net investment in Storm Drainage infrastructure has increased by $20 million.
    - Mill Creek Flood Protection and Flood storage projects added to align with federal grant.
    - Storm Drainage Asset Renewal (Multiple projects) - Net investment decrease $1.8 million to offset the required taxation to meet the Milk Creek Flood Protection grant agreement.
- Information Services
    - Due to COVID related 2020 Final Budget cuts Information Services taxation funding decreased by $1.4 million or 17%. Taxation accounts for all future planned expenditures for City Front Office Equipment and Server and Data Storage Equipment.
    - Major Systems Projects – Net investment increase $2.2 million to account for new Financial Services software. This project is to be funded from reserve.
- Airport
    - Overall net investment in Airport infrastructure has decreased $76 million.
    - The pandemic has caused a significant decrease in Airport passenger numbers and a return to 2019 passenger numbers is not expected until at least 2023. This has led to significant changes in the Airport's capital investments over the next ten years and the result is a net investment decrease of $76 million from the previous *10-Year Capital Plan*.
- Water
    - Overall net investment in water infrastructure has decreased $33.5 million. The major change in investment by 10-Year Water infrastructure category is as follows:
        - Network and Facility Renewal decrease of $16.9 million
        - Network and Facility Improvements decrease of $8.4 million
        - Irrigation Network Improvements decrease of $4.75 million

- Wastewater
    - Overall investment in wastewater infrastructure has increased $38 million. The major change in investment by 10-Year Wastewater infrastructure category is as follows:
        - DCC Pipes Mains and Lift Stations and Treatment increase of $3.6 million
        - DCC Wastewater Treatment Facility increase of $28.9 million (Utility portion of Digestor project)
        - Network and Facility Renewal increase of $5.8 million

Operational Impacts

The *10-Year Capital Plan* forecasts $952 million in 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) may require an additional $8.8 million annually to operate and maintain this new infrastructure by 2029.

Priority 2 Projects and Infrastructure Deficit

Infrastructure projects that are lower priority and not fully funded are termed Priority 2 (P2) projects. P2 projects amount to $558 million in the *10-Year Capital Plan* and include projects to accommodate growth, enhance services, and renew existing assets (Figure 4).

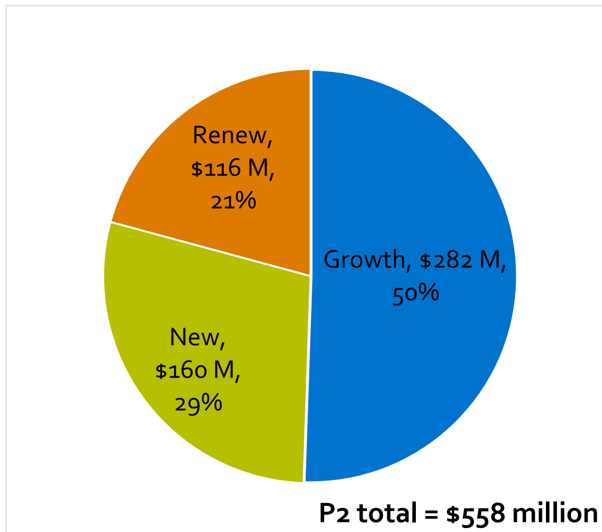

Figure 4. P2 Investment by asset category.

The value of P2 projects decreased by $135 million compared to the previous *10-Year Capital Plan*. The new Parks DCC combined with the Infrastructure Levy funded many Parks projects and significantly reduced the Parks deficit (Figure 5).

Large infrastructure deficits continue to exist in both Buildings and Transportation attributable to large infrastructure projects that are contingent on other funding sources (i.e. grants or partnerships).

- Clement 2 (Hwy 33 Ext.) - $59 million
- Airport Exchange - $35 million
- Transit Facility - $41 million
- Kelowna Community Theatre - $72 million

Funding shortfall for renewal of Building and Transportation assets is also contributing to the deficit in these cost centres.

Wastewater is another area with an appreciable infrastructure deficit primarily caused by the planned anerobic digester ($44 million). The Digester will likely be funded through a combination of utility funds and DCCs, but the funding strategy is still in development.

Due to COVID related 2020 Final Budget cuts Information Services taxation funding decreased by $1.4 million or 17%. This is significant because taxation accounts for all future planned IS expenditures.

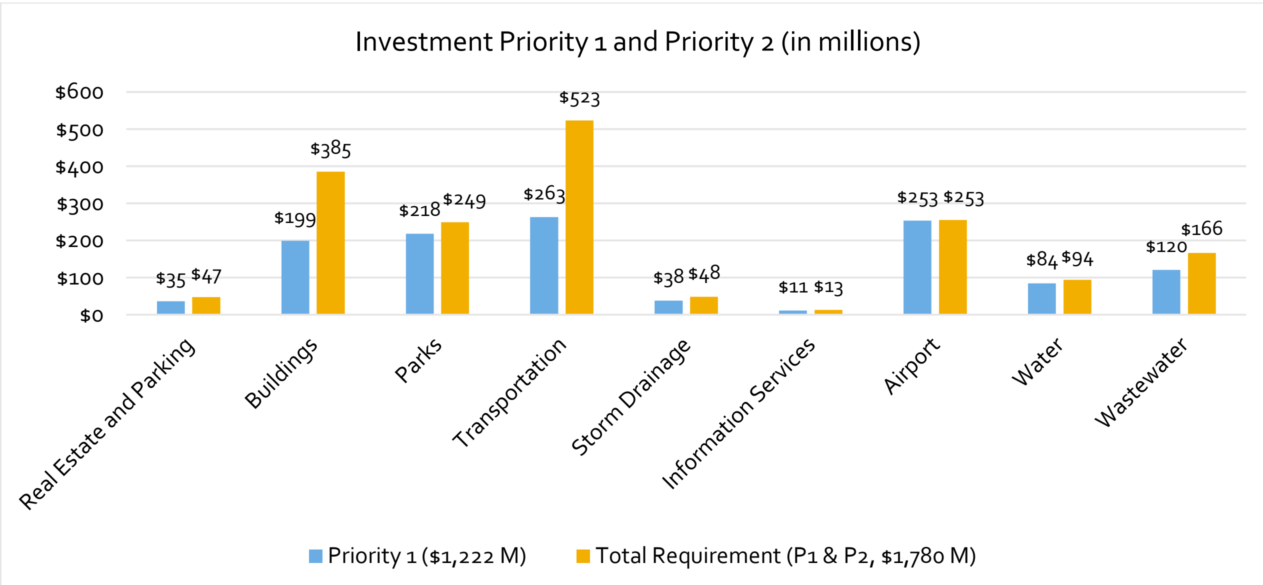

Figure 5 - Infrastructure Investment - P1 and P2.

Table 2 provides a breakdown of funding sources for the P2 projects and shows that a portion would be funded from other sources including DCCs, grants, utilities and/or partnerships. The City's share of the P2 projects is $377 million and represents the City's 'Infrastructure Deficit' for the next 10-years. The Infrastructure Deficit has decreased modestly by $19 million compared to the previous *10-Year Capital Plan*. The large investment gains attributable to the Parks DCC, Infrastructure Levy and leveraging existing reserves have been offset by the COVID-19 impacts and construction cost increases resulting in the modest improvement in the Infrastructure Deficit. The funding source(s) for the Infrastructure Deficit have not been identified and will be the focus of further analysis over the coming months.

Table 2 – P2 Infrastructure investment by category and funding source.

INFRASTRUCTURE CATEGORY		**Funding**	
	Cost	**City**	**Other***
Renewal	$116	$109	$7
Growth	$282	$149	$133
New (enhance service)	$160	$119	$41
TOTAL	**$558**	**$377**	**$181**

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

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:
Airport Director
Senior Airport Finance & Corporate Services Manager
Community Engagement Manager
Deputy City Manager
Director Strategic Investments
Divisional Director, Active Living and Culture
Divisional Director, Community Planning
Divisional Director, Corporate and Protective Services
Divisional Director, Corporate Strategic Services
Divisional Director, Infrastructure Division
Financial Planning Manager
Budget Supervisor
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* (2020 – 2029)
Attachment 2 - *10-Year Capital Plan* Presentation

cc: Airport Director
Deputy City Manager
Director Strategic Investments
Divisional Director, Active Living and Culture
Divisional Director, Corporate and Protective Services
Divisional Director, Corporate Strategic Services
Divisional Director, Financial Services
Divisional Director, Infrastructure Division
Fire Chief
Infrastructure Operations Department Manager