

Report to Council



Date: December 7, 2020
To: Council
From: City Manager
Subject: 10-Year Capital Plan (2020 to 2029)
Department: Infrastructure

Recommendation:

THAT Council receives for information, the report from the Infrastructure Department dated December 7, 2020, with respect to the 10-Year Capital Plan;

AND THAT Council adopts the 10-Year Capital Plan (2020 to 2029).

Purpose:

To provide Council with the 10-Year Capital Plan for their adoption.

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 Citizen Survey* indicated the majority of people enjoy a good quality of life and receive good value for their tax dollars – good financial and infrastructure management are key to both metrics.

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 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 later in the year when staff presented the first draft of *10-Year Capital Plan* to Council (November 23rd, 2020).

There have been significant financial impacts related to the pandemic and these impacts have negatively affected the City's ongoing capital funding capacity. These impacts have been offset 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 \$388 million over the next 10 years.

There have been a few changes to the *10-Year Capital Plan* that was presented to Council November 23rd, 2020 as summarized below:

Buildings P1 project:

2021 Parkinson Recreation Centre – Building Replacement. Increased taxation by \$1.42 million and decreased borrowing by \$1.42 million. No net change to project costing.

Parks P2 project:

2021 Kelowna Memorial Cemetery Improvement P2 of \$50K removed to match preliminary budget.

Storm Drainage P2 project:

The Mill Creek Flood Protection work that was planned at the Airport has reduced in scope, resulting in further grant funding being available for work on other sections of Mill Creek. The funding for this work along with the matching 40% senior government grant amounts to \$18.6 million, is now identified as a P2 within Storm Drainage and has caused an increase in the infrastructure deficit.

Fire P1 projects:

Additional Vehicles/Equipment projects increased by \$1.74 million to reflect up to date information on projected new and growth-related demand. Projects are fully funded from reserve.

Airport P2:

The Mill Creek Realignment for \$1 million has been removed and consolidated within the Storm Drainage Cost Centre in the Mill Creek Flood Protection project.

Wastewater P1:

WWTP Blower Replacement \$500K moved from 2021 to 2022 to reflect the likely delivery of project and align with the preliminary budget.

Council directed staff at the November 23rd, 2020 meeting to bring forward options for advancing the final phases of Glenmore Recreation Park in the *10-Year Capital Plan*. This work is underway and will be coordinated with improvements at the Mission Recreation Park and Parkinson Recreation Centre and be presented as part of next years update to the *10-Year Capital Plan*.

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 \$1.32 billion of capital investment across 12 capital cost centres (Figure 1). 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.

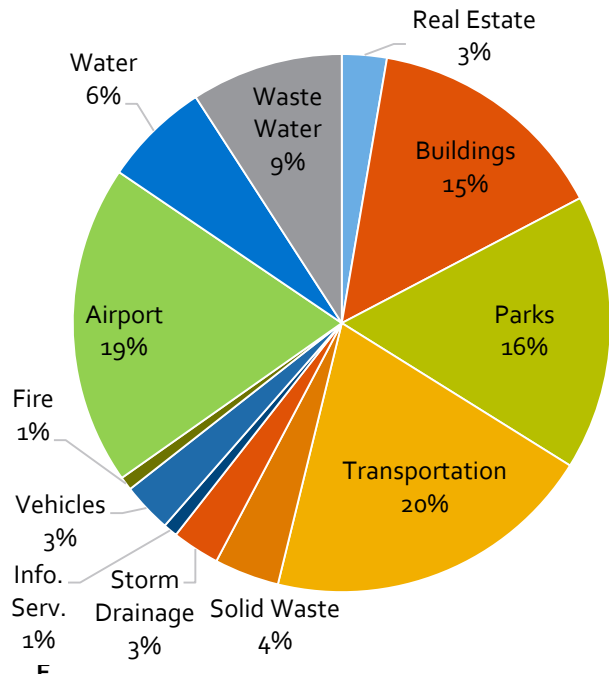


Figure 1 – Infrastructure Investment \$1.32 billion

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 2). The general taxation share of funding is \$140 million and represents 11% of the total infrastructure investment. COVID-19 financial impacts have reduced taxation funding for capital by \$40 million in the years 2020 - 2029.

The Infrastructure Levy funds have been fully allocated on projects that renew existing assets like bridges and roads, accommodate growth and

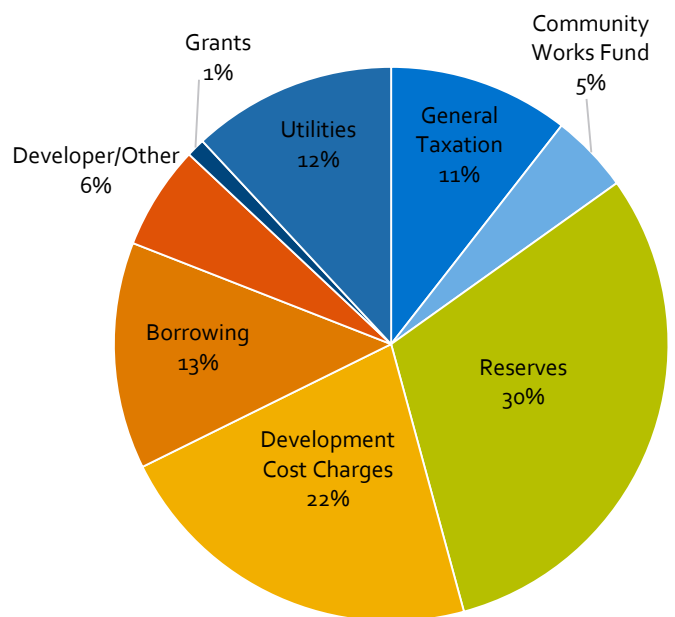


Figure 2 - Funding sources totaling \$1.32 billion

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	

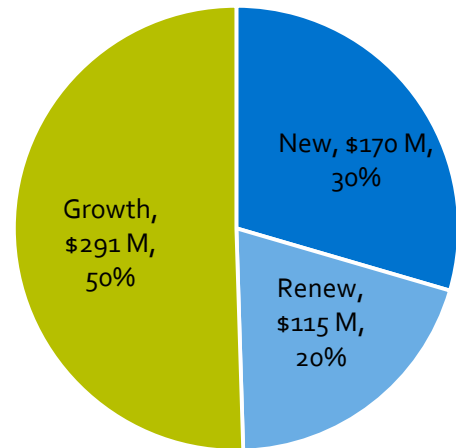
Priority 2 Projects and Infrastructure Deficit

Infrastructure projects that are lower priority and not fully funded are termed Priority 2 (P2) projects. P2 projects amount to \$576 million in the *10-Year Capital Plan* and include projects to accommodate growth, enhance services, and renew existing assets (Figure 3). The value of P2 projects decreased by \$117 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 4).

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



P2 total = \$576 million

Figure 3. P2 Investment by asset category.

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 anaerobic 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.

Solid Waste, Fire and Vehicles & Equipment are not shown in Figure 4 because they do not have any unfunded projects.

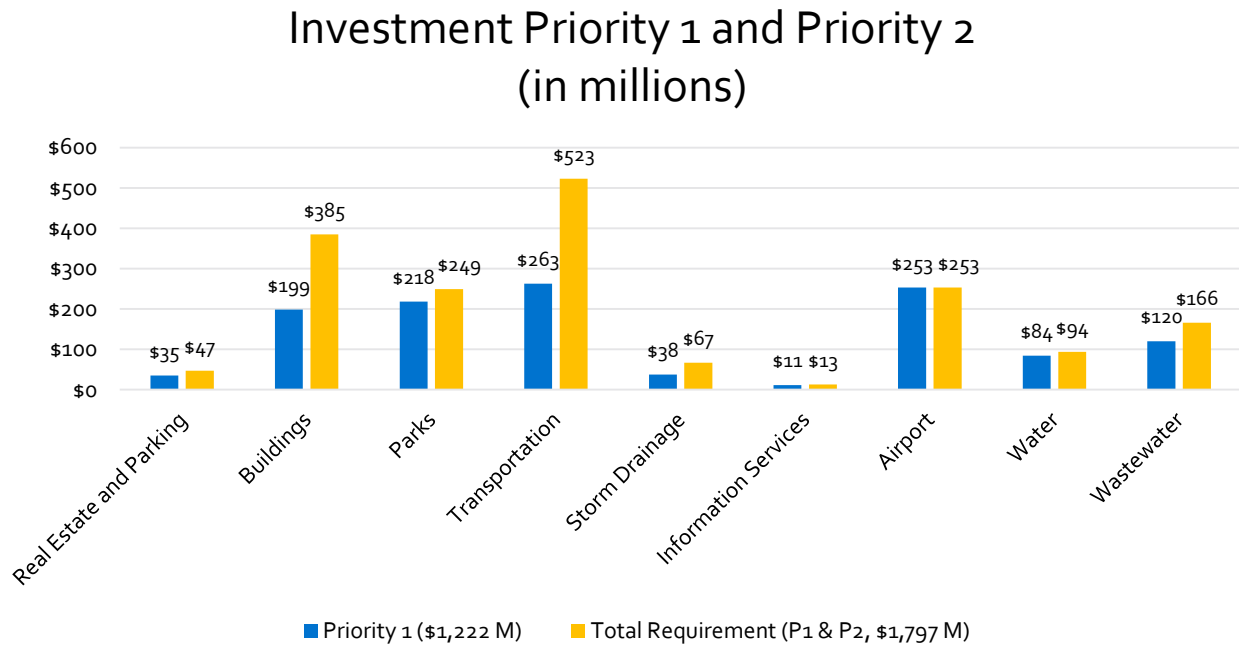


Figure 4 - Infrastructure Investment - P1 and P2.

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 \$388 million and represents the City’s ‘Infrastructure Deficit’ for the next 10 years. The Infrastructure Deficit has decreased modestly by \$8 million compared to the previous *10-Year Capital Plan 2019-2028*. 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	Cost (\$ million)	Funding (\$ million)	
		City	Other*
Renewal	\$115	\$108	\$8
Growth	\$291	\$155	\$136
New (enhance service)	\$170	\$125	\$44
TOTAL	\$576	\$388	\$188

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

The previous *10-Year Capital Plan* was endorsed by Council in July 2019 and 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). Overall investment increased by \$14 million to \$1.32 billion in the updated *10-Year Capital Plan* for P1 projects.

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	\$35	\$37	-\$2
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	\$13	\$9	\$4
Water	\$84	\$118	-\$34
Wastewater	\$120	\$82	\$38
Airport	\$253	\$329	-\$76
Unallocated Infrastructure Levy	\$0	\$45	-\$45
Total	\$1,324	\$1,310	\$14

Financial/Budgetary Considerations:

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.

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
- Budget Supervisor
- 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
Fire Chief
Fleet Services Manager
Information Services Department Manager
Infrastructure Operations Department Manager
Parks & Buildings Planning Manager
Senior Airport Finance & Corporate Services Manager
Transportation Engineering Manager
Utility Services Manager

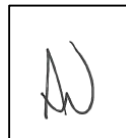
Considerations not applicable to this report:

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

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