

# Report to Council



**Date:** June 27, 2022  
**To:** Council  
**From:** City Manager  
**Subject:** 10-Year Capital Plan (2022 to 2031)  
**Department:** Asset Management & Capital Planning

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## **Recommendation:**

THAT Council receives, for information, this the first of two reports from the Asset Management & Capital Planning Manager dated June 27<sup>th</sup>, 2022, to introduce this year's update to the 10-Year Capital Plan.

## **Purpose:**

To introduce the 10-Year Capital Plan to Council for their review and direction prior to staff returning to Council for endorsement.

## **Background:**

This annual update to the 10-Year Capital Plan (the Plan) forecasts the City's infrastructure needs from 2022 – 2031. The Plan forecasts \$1.63 billion in infrastructure investment required to accommodate growth, enhance services and renew existing infrastructure.

Guided by Council and Corporate Priorities, capital investment will focus on the following areas:

- Renewal of aging infrastructure.
- Parks acquisition and development.
- Alignment with the adopted Transportation Master Plan: making it easier for 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 aligned with post-pandemic passenger forecasts.
- Infrastructure investment aligned with the new Official Community Plan and Transportation Master Plan.

The 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 Plan on an annual basis so that it remains accurate, responsive, and practical. By doing so, the Plan will help maximize infrastructure investment in the community where and when it is most needed.

An overview is provided below, and the reader is directed to the appendix for the complete 10-Year Capital Plan.

### Funded Investment

Kelowna is impacted by ongoing current events at the global and local level. There are global factors influencing this year's Plan that are beyond the City's control. These include labour shortages, supply chain challenges, inflation, rising interest rates, increased energy costs, COVID-19 recovery and climate change. The City also faces a number of infrastructure servicing challenges at the local level. These include rapid growth, community demand for more and enhanced services, and greater need to replace aging assets.

The City is responding to these challenges with progressive land use, transportation and infrastructure planning. The recently adopted 2040 Official Community Plan and Transportation Master Plan have set the City on a path to sustainable service delivery, but there are still challenges ahead.

These challenges have caused cost and timing changes for Funded Projects, or Priority 1's (P1), as well as the Unfunded Projects, or Priority 2's (P2).

Overall, there is \$1.63 billion in funded projects (P1) forecasted in the next 10-years, an increase of \$131 million from the previous plan. The following table compares the total investment for funded projects in this Plan compared to the previous plan.

**TABLE 1.** Summary of changes from the previous plan and this plan for funded projects.

Cost Centre	Previous Plan (\$ million)	This Plan (\$ million)	Difference (\$ million)
Real Estate and Parking	\$44	\$46	\$2
Buildings	\$240	\$290	\$50
Parks	\$226	\$248	\$22
Transportation	\$346	\$307	\$(39)
Solid Waste	\$63	\$61	\$(2)
Storm Drainage	\$47	\$45	\$(2)
Information Services	\$11	\$12	\$1
Vehicle or Mobile Equipment	\$50	\$55	\$5
Fire	\$13	\$14	\$1
Water	\$108	\$118	\$10
Wastewater	\$135	\$197	\$62
Airport	\$216	\$237	\$21
<b>Total</b>	<b>\$1,499</b>	<b>\$1,630</b>	<b>\$131</b>

## Big changes for funded (P1) projects include:

**Buildings.** Cost escalation of approximately 40% on a significant number of projects driven by global and local factors – inflation, labour and material shortage, as well as overall increased construction costs.

**Parks.** Cost escalation of approximately 30% on a significant number of projects driven primarily by global influences – inflation, labour and material shortage.

**Transportation.** Overall capital program decreased relative to the current 10-Year Capital Plan. This decrease reflects a combination of several removed projects, updated funding projections, and a shift towards projects with higher levels of taxation support to align with the Transportation Master Plan (TMP).

**Wastewater.** The anaerobic digester was elevated from P2 to P1 and cost escalation has increased wastewater investment.

**Airport.** Capital projects are aligned with most recent forecasted passenger numbers and regulatory requirements at the Airport. The Airport's 10-year Capital Plan is subject to adjustment due to the fluidness of the Airport's recovery from the COVID-19 pandemic and will continue to be updated while developing the 2023 Preliminary Budget.

## Unfunded Investment

There is \$744 million in unfunded (P2) projects forecasted in the next 10-years, an increase of \$121 million compared to the previous plan.

**Table 2.** Summary of changes of from the Previous Plan and this Plan for unfunded projects.

Cost Centre	Previous Plan (\$ million)	This Plan (\$ million)	Difference (\$ million)
Real Estate and Parking	\$13	\$40	\$27
Buildings	\$217	\$442	\$225
Parks	\$48	\$113	\$65
Transportation	\$219	\$54	\$(165)
Storm Drainage	\$24	\$21	\$(3)
Information Services	\$1	\$1	\$0
Vehicle & Mobile Equipment	\$0	\$18	\$18
Fire	\$0	\$1	\$1
Water	\$28	\$38	\$10
Wastewater	\$73	\$16	\$(57)
<b>Total</b>	<b>\$623</b>	<b>\$744</b>	<b>\$121</b>

**Big changes for unfunded (P2) projects include:**

**Real Estate & Parking.** Additional funding to construct parkades within the South Pandosy and Downtown areas.

**Buildings.** Cost escalations have caused several P1 projects to move to P2. Comprehensive condition assessments of existing buildings identified additional deferred maintenance that requires addressing in the near term. This cost centre accounts for nearly 60% of all unfunded projects.

**Parks.** Cost escalations caused several P1 projects to move to P2. Parks accounts for 15% of the unfunded projects.

**Transportation.** Net reduction. The Transportation P2 list was updated to align with the TMP. The TMP refined the project list through a cost effectiveness lens, resulting in a smaller P2 list. Some projects were removed, some projects were elevated to P1, and some projects were moved beyond 2031. Scenario 3 projects from the TMP are not included in the 10 Year Capital Plan P2 list, as the majority are beyond the 20-year planning horizon.

**Wastewater.** The anaerobic digester was moved from P2 to P1 reducing the deficit in this cost centre.

**Infrastructure Deficit**

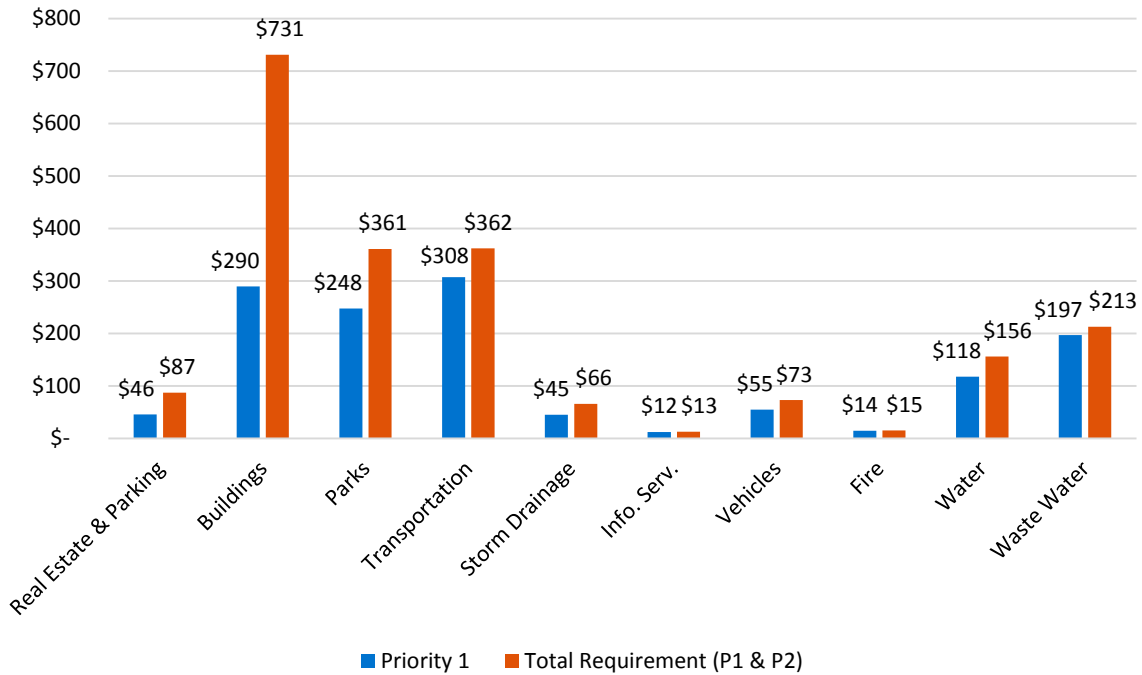
The Infrastructure Deficit (ID) is comprised of the City’s share of funding for all P2 projects net of funding from other sources including DCCs, grants, utilities and/or partnerships. The City’s share of the P2 projects is \$610 million and represents the City’s Infrastructure Deficit for the next 10 years.

As a percentage of funded capital investment, the ID trended down in 2018 and 2019 due to the increased revenue from the Infrastructure Levy and the Parks DCC. The ID remained relatively constant as a percentage of funded capital (~30%) for 2020 and 2021 but has increased in 2022 due to global influences and the renewal needs identified in the Buildings Cost Centre.

**Table 3.** Summary of Infrastructure Deficit (ID) by year (\$million).

	2018	2019	2020	2021	2022
<b>ID (\$millions)</b>	\$463	\$396	\$388	\$430	\$610
<b>ID % of funded capital</b>	44%	31%	29%	29%	37%

The funding gap is determined by the available funding compared to the total funding needed for both P1 and P2 projects.



**Figure 1.** Funding gap comparison between available funding for P1 projects and total funding need for both P1 and P2 projects.

Of the 109 P2 projects, 24 of them in five cost centres account for 81% of the total \$610 million Infrastructure Deficit

These projects are listed below.

(\*Note: a number of the below noted projects would only advance once additional funding is secured (i.e. grants, fund raising, partnership, etc.) or borrowing is approved).

**Table 4.** Major projects that are unfunded.

Cost Centre	Major Unfunded Projects	Value (\$ million)
<b>Real Estate &amp; Parking</b>	New Parkades	\$36
<b>Buildings</b>	Kelowna Community Theatre Replacement	\$102
	City Yards Replacement	\$81
	Kelowna Museum Replacement	\$75
	General Building Renewal	\$57
	Prospera Place Renovations	\$17
	Capital Opportunities & Partnership Fund	\$17
	Glenmore Recreation Activity Centre	\$13
	Memorial Arena – Adaptive Reuse	\$11
	Rotary Centre for the Arts Expansion	\$8

	KLO Fire Hall (Stn#6)	\$9
<b>Parks</b>	Sutherland Bay Park	\$17
	Irrigation Renewal	\$12
	Boat Launch – Land Acquisition and Facility Renewal	\$12
	Gallagher Park	\$11
	Neighbourhood Park Development	\$10
	Community Park Development	\$8
	Recreation Park Development – Artificial Turf Field	\$7
<b>Transportation</b>	Abbott DCC (Rose – Gyro), ATC	\$9
	Orchard Park Exchange	\$8
	KLO Rd Mission Cr. Bridge Replacement	\$6
	Richter DCC (Sutherland – KLO), Rd	\$4
	Road Renewal	\$6
<b>Storm Drainage</b>	Mill Creek Flood Protection	\$13

### Funding Sources

Funding for the 10-Year Capital Plan comes from multiple sources. General taxation makes up 11% of the funding with approximately 50% of funding coming from Development Cost Charges, Grants, Community Works Fund, Borrowing and Developer and Other Contributions.

The Infrastructure Levy (IL), that was approved in 2019, will contribute \$56 million to the capital program in the next 10-years. It is worth noting that the IL is not currently indexed with inflation.

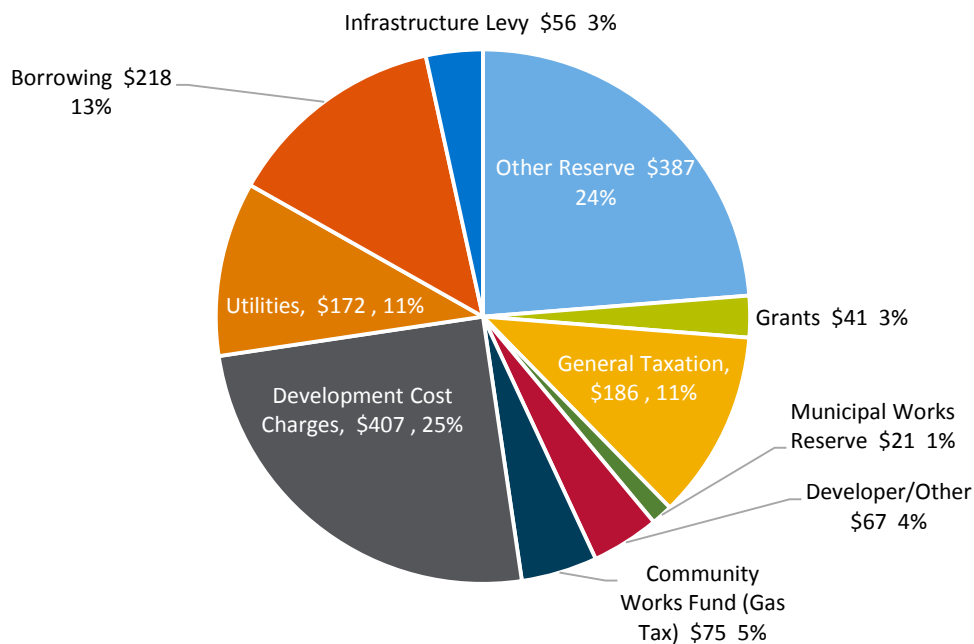
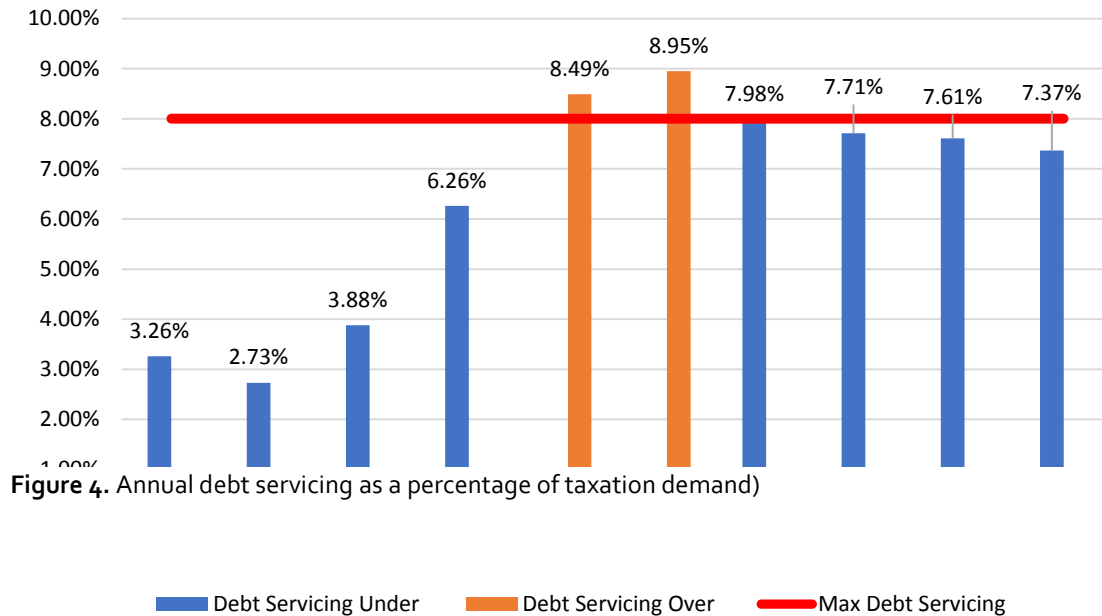


Figure 2. Funding sources for 10-Year Capital Plan (\$millions). Total \$1.63 billion.

## Borrowing Costs

The current policy of debt repayment is to not exceed 8% of the taxation demand for supported debt and 15% of City-owned source revenues. Debt servicing, as a percentage of taxation demand, is anticipated to exceed this limit due to the borrowing costs of projects in the Buildings cost centre (i.e. Kelowna Community Campus and CNC Expansion). This policy may need to be reviewed and amended, if alternative funding is not secured, to accommodate this increase.



**Figure 3 - Debt servicing as a percentage of total tax demand.**

### 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  
 Director Strategic Investments  
 Divisional Director, Active Living and Culture  
 Divisional Director, Community Planning  
 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 Planning 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, Asset Management and Capital Planning Manager

**Approved for inclusion:** G. Davidson, Financial Services Divisional Director

Attachment 1 - 10-Year Capital Plan (2022 – 2031)  
Attachment 2 - 10-Year Capital Plan Presentation

cc: 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