Agenda - Executive Policy Committee - June 21, 2006

Report - Standing Policy Committee on Infrastructure Renewal and Public Works - June 13, 2006

Item No. 2 Inflation on Public Works 2006 Regional and Local Streets Program
File FC(2006)

STANDING COMMITTEE RECOMMENDATION:

On June 13, 2006, the Standing Policy Committee on Infrastructure Renewal and Public Works concurred in the administrative recommendation and submits the following to Council:

1. That to offset the higher than anticipated inflation on the 2006 Regional and Local Streets Program, the following be approved, namely;

   A. That surplus capital funding from the 2006 Developer Payback Program (for works constructed on Ravenhurst Street) of $300,000.00 be reallocated to the 2006 Regional and Local Streets Program.

   B. That Developers' contributions in the amount of $600,000.00 currently held by the Planning, Property and Development Department for right-of-way improvements that have previously been completed by the Public Works Department be transferred to the Public Works Department 2006 Regional and Local Streets Program.

   C. That the additional "cash to capital" ($500,000.00) identified in the 2006 Operating Budget, Recommendation 2 G of Item No. 1 of the Report of Executive Policy Committee dated March 15, 2006, and adopted by Council on March 21, 2006, be allocated to the 2006 Regional and Local Streets Program.

2. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Agenda - Executive Policy Committee - June 21, 2006

Report - Standing Policy Committee on Infrastructure Renewal and Public Works - June 13, 2006

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On June 13, 2006, the Standing Policy Committee on Infrastructure Renewal and Public Works concurred in the administrative recommendation and submitted the matter to the Executive Policy Committee and Council.

On May 9, 2006, the Standing Policy Committee on Infrastructure Renewal and Public Works approved the transfer of surplus funds - 2004 Waterway Crossing and Grade Separation Annual Program, as outlined in the report from the Director of Public Works dated May 1, 2006, with respect to the reallocation of surplus capital funding ($610,000) to the 2006 Regional Streets Program.

COUNCIL DECISION:

On March 21, 2006, Council approved the 2006 Operating Budget, which included the following;

- That, pursuant to the tabling of the Provincial Budget, a further $1 million in capital expenditures be authorized for Regional and Local Streets, to be financed through the Provincial Building Manitoba Fund with specific projects to be included as part of the supplemental program to be developed by the Public Works Department in 2006.

- That the budget for the cash to capital contribution be increased by $500,000, for a total cash to capital funding level in 2006 of $56.5 million.

On February 21, 2006, Council approved the 2006 Capital Budget regarding the Regional and Local Streets program.

STANDING COMMITTEE RECOMMENDATION:

On January 12, 2006, the Standing Policy Committee on Infrastructure Renewal and Public Works approved the 2006 Capital Residential Street Renewal and 2006 Capital Lane Renewal Programs as outlined in the report from the Director of Public Works dated December 12, 2005.

REPORT

RE: Inflation on Public Works 2006 Regional and Local Streets Program

FOR SUBMISSION TO: Standing Policy Committee on Infrastructure Renewal and Public Works

ORIGINAL REPORT SIGNED BY: L.S.W. Larkin, P. Eng., Director of Public Works

REPORT DATE: June 5, 2006

RECOMMENDATION:

That Council approves the following recommendations to offset the higher than anticipated inflation on the 2006 Regional and Local Streets Program;

A. That surplus capital funding from the 2006 Developer Payback Program (Ravenhurst) $300,000 be reallocated to the 2006 Regional and Local Streets Program.
B. That Developers' contributions in the amount of $600,000 currently held by the Planning, Property and Development Department for right-of-way improvements that have previously been completed by the Public Works Department be transferred to the Public Works Department 2006 Regional and Local Streets Program.
C. That the additional "cash to capital" ($500,000) identified in the 2006 Operating Budget, Recommendation 2 G of item No. 1 of the report of EPC dated March 15, 2006, and adopted by Council on March 21st, 2006, be allocated to the 2006 Regional and Local Streets Program.

REPORT SUMMARY

Key Issues:

- Inflation on recently advertised Public Works Department streets bid opportunities has been higher than budgeted.
- Based on recent bid submissions, the Public Works Department anticipates that that there will be insufficient capital funding to complete the 2006 Council approved Regional and Local Streets program.
- The Administration requires Council authority to reallocate surplus and unallocated (cash to capital) funds to the 2006 Regional and Local Streets Program.
- To fund the anticipated shortfall, the rehabilitation of the William Avenue (Sherbrook Street to Arlington Street) could be considered for deferral ($1,300,000).

Implications of the Recommendation(s):

General Implications

	None
	For the organization overall and/or for other departments
X	For the community and/or organizations external to the City
	Involves a multi-year contract

Comment(s):

- Without additional funding, the Council approved 2006 Regional and Local Streets program that has been identified publicly will not be completed in its entirety.

Policy Implications

X	No
	Yes

Comment(s):

Regulatory Implications

X	None
	Eliminates or reduces regulatory impact
	Proposes regulatory impact

Comment(s):

Environmental Implications

X	No
	Yes

Comment(s):

Human Resources Implications

X	No
	Yes

Comment(s):

Financial Implications

	Within approved current and/or capital budget
X	Current and/or capital budget adjustment required

Comment(s):

- The Administration requires Council approval to reallocate surplus capital funding to offset potential funding shortfalls for the execution of the Council approved 2006 Regional and Local Streets program.

REPORT

REASON FOR THE REPORT:

Council approval is required to reallocate funds to an approved capital budget for a probable funding shortfall of $1.4 million on the 2006 Regional and Local Streets Program due to higher than anticipated inflation.

HISTORY:

- On January 12th, 2006, the Standing Policy Committee on Infrastructure Renewal and Public Works approved the 2006 Local Streets program.

- On February 21st, 2006 as part of the adopted 2006 Capital Budget, Council approved the Regional and Local Streets program.

- On March 21st, 2006 the 2006 Operating Budget was adopted. The adopted Operating budget included the following amendments to the 2006 Adopted Capital Budget ;
    - An additional $1 million in Provincial Contributions towards the adopted 2006 Regional and Local Streets Program.
    - Additional $500,000 “cash to capital” be transferred to the 2006 Adopted Capital Budget.

- On May 9th, 2006 Council approved the reallocation of surplus capital funding ($610,000) to the 2006 Regional Streets Program.

DISCUSSION:

2006 Regional and Local Streets Program

On January 12th, 2006 the Standing Policy Committee on Infrastructure Renewal and Public Works approved the 2006 Capital Residential Street Renewal and Capital Lane Renewal Lane Program.

On February 21st, 2006 Council adopted the 2006 Capital Budget including the 2006 Regional and Local Streets Program estimated at $37 million.

On March 21st, 2006, as part of the 2006 adopted Operating Budget, Council approved the addition of $1 million in Provincial contributions towards the Regional and Local Streets Program. The additional $1 million in Provincial funding was not assigned to any specific projects.

On May 9th, 2006 Council approved the reallocation of surplus capital funding ($610,000) to the 2006 Regional Streets Program.

As of May 23rd, 2006 the Public Works Department has unallocated $2.51 million in capital funding for the 2006 Regional and Local Streets Program. The Public Works Department has identified these unallocated funds as a funding source for the existing budget shortfalls on recently advertised Regional and Local Streets bid opportunities and partial funding for an anticipated budget shortfall on future bid opportunities, assuming the inflationary trend in bid prices experienced to date continues.

2006 Street Rehabilitation - Estimated Inflation

The Public Works Department has, as part of their 2006 estimating process, included an inflationary factor of 10 to15% on the 2006 streets projects over the 2005 prices.

The Public Works Department has advertised and closed 12 of the scheduled 28 streets bid opportunities or 43% of the total program.

The average 2006 inflation (over 2005 prices) to-date is 21%. See appendix "A".

On the bid opportunities that have closed, the higher than anticipated inflation has resulted in a shortfall of approximately $1.9 million over the budget estimates.

It is further anticipated, that inflation will continue at 21% on the remaining streets bid opportunities which will create an additional funding shortfall of 2.0 million. The total streets program cost increase, as a result of the higher than expected inflation, is estimated at $3.9 million.

Funding Sources to Accommodate Inflationary Increases

Existing Unallocated funding 2006 Adopted Capital Budget – Regional and Local Streets Program		**$2,510,000**
Potential New Funding Identified in This Report		
• Developer Payback program (Ravenhurst)	$300,000	
• Developer Contributions – Right-of-way Improvements	$600,000	
• "Cash to Capital" – 2006 Operating Budget	$500,000	
Sub-total		**$1,400,000**
Total Funding		**$3,910,000**

Inflationary Drivers

The increased inflation and the subsequent budget shortfalls on the 2006 Regional and Local Streets Program can be attributed to the following factors;

- Material Cost Increases – Between 2005 and 2006 the Public Works Department has realized significant cost increases in the major units of work for the rehabilitation of streets;
    - Portland cement concrete 25% increase
    - Asphaltic concrete 19% increase
    - Granular material 30% increase

- Supply and Demand – There are a large number of projects that are being undertaken this year which are competing for limited construction resources. Some of these projects include;

    - Manitoba Hydro Tower
    - Floodway expansion
    - Winnipeg Airport Expansion
    - New subdivisions
    - Water and Waste Department projects
    - Increased Provincial Highways Program

- Labour cost increases – Due to increased demands for Labour in the market place and the competition to attract new employees contractors are experiencing increased Labour costs.

Options

The Administration has reviewed a number of options in an effort to ensure the 2006 streets program is completed in its entirety, they include;

1. Additional funding sources
2. Reduce project scope/ Defer projects
3. Utilize internal construction services rather than contracting out

1. Additional Funding Sources

<u>Potential Surplus Capital funds</u>

The Reallocation of surplus capital funding from the 2006 Developer Payback Program (Ravenhurst) $300,000 to the 2006 Regional and Local Streets Program be approved.

The City is obligated under development agreement 7993 (AG 42/87), as per Council orders of May 31st, 1989 and subsequent addenda, to reimburse the Developer (Novamet Development Corporation) for certain works constructed by the said developer on Ravenhurst Street.

The cost for the proposed works was estimated at $1.3 million. The final project cost is $1 million with $300,000 available for redistribution. The funding to support this developer payback was originally reallocated from the 2006 Regional and Local Streets Program.

Unallocated "Cash to Capital"

That the additional "cash to capital" ($500,000) identified in the Adopted 2006 Operating Budget, minute 297, item 2(g) dated March 21st, 2006, be allocated to the 2006 Regional and Local Streets Program.

Developer Contributions

That Developers' contributions in the amount of $600,000 currently held by the Planning, Property and Development Department for right-of-way improvements that have previously been completed by the Public Works Department be transferred to the Public Works Department 2006 Regional and Local Streets Program.

Administration's Directive to Collect the Subject Funds

Within the Development Agreement parameters, adopted by City Council, are guidelines for the City's Administration and Developers for formulating conditions into Development Agreements to ensure that all parties pay their equitable share of the costs associated with land development.

Current Status

The Planning, Property and Development Department is currently administering, for the Public Works Department, Developer contributions totaling $600,000 held in a Corporate Finance Department capital fund account. These funds constitute the Developers' share of the costs for works that have already been executed and funded by the City.

The external auditors have examined the Developer Contributions account as part of their audit of the financial statements of the General Capital Fund and consolidated financial statements and have recommended that:

- These funds be considered as equity rather than a liability and suggest that the following balance in the account ($600,000) be reduced accordingly, with an offset to an equity account.

Key Considerations

- The Public Works Department has in the past funded these completed projects with Capital funding that is assigned annually to the Department. When monies are directed from the annual capital budget for municipal infrastructure that supports developing lands it often results in a trade off with other Public Works programs and in order to fund these required improvements the Department has generally reduced the renewal of existing Regional and Local Streets Programs by the required amount.

2. Reduce Project Scope/ Defer Projects

To stay within the approved budget some the proposed projects could be deferred until 2007 or the projects limits could be shortened.

If the projects are deferred there would be additional maintenance costs to keep these streets safe and functional until 2007. In addition, the 2006 Regional and Local Street Program has been made public, deferring projects will likely not meet public expectations.

Shortening project limits would likely result in higher project costs as economies of scale are lost. The shorter project limits will require that the deferred sections be completed the following year with additional disruption to residents and traffic movement.

The following project could be considered for deferral:

1. William Ave. – Rehabilitation (Sherbrook St. to Arlington St.) $1,300,000 –
   William Avenue recently underwent minor surface repairs that could permit the deferral of this project. The repaired surface is providing satisfactory riding comfort and has been made safe for pedestrian crossings.

Utilize Internal Construction Services

Internal construction services may have limited capacity to execute additional works and there may be no cost advantage as they have incurred similar material cost increases.

Financial Impact Statement

Date: June 5, 2006

Project Name:

Inflation on Public Works 2006 Regional and Local Streets Program

First Year of Program **2006**

	2006	2007	2008	2009	2010
Capital					
Capital Expenditures Required	$ 1,400,000	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	800,000	-	-	-	-
Additional Capital Budget Required	$ 600,000	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Developer deposits	600,000	-	-	-	-
Total Funding	$ 600,000	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ 600,000	$ -	$ -	$ -	$ -
Total Additional Debt Required	$ -	$ -	$ -	$ -	$ -
Current Expenditures/Revenues					
Direct Costs	$ -	$ 76,000	$ 76,000	$ 76,000	$ 76,000
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ 76,000	$ 76,000	$ 76,000	$ 76,000
Less: Existing Budget Amounts	-	76,000	76,000	76,000	76,000
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Direct Costs include budgeted debt and finance charges

"Original Signed By Darcy Stewart, CA"

Darcy Stewart
Manager of Finance & Administration

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:
Planning, Property and Development Department

External Consultation With:

THIS REPORT SUBMITTED BY:

Department	Public Works Department
Division:	Engineering Division
Prepared by:	S. Payne, C.E.T, P.M.P..... 986-3615
Processed by:	K. Ross 986-4141

APPENDIX "A"

2006 CAPITAL WORKS CONSTRUCTION PROGRAM
PUBLIC WORKS DEPARTMENT
STREETS INFLATION

PROGRAM - BID OPPORTUNITY	BID OPPORTUNITY CLOSING DATE	PROJECT DESCRIPTION	INFLATION FROM 2005 TO 2006
		MILL AND FILL	
168 2006	April 21	Main Street/ Portage Avenue (E/B)	28%
202 2006	May 10	Roblin Boulevard - Barker Boulevard to Dieppe Road	16%
216 2006	April 19	Pembina Highway - McGillivray Boulevard to Chevrier Street	12%
236 2006	May 3	Goulet Street / Henderson Highway (S/B) / Regent Avenue	8%
		MAJOR REHABILITATION	
6 2006	April 4	St. Mary's Road - Dunkirk Drive to Greendell Avenue	25%
182 2006	April 27	Hespeler Avenue - Henderson Highway to Redwood Bridge	20%
184 2006	April 26	Pembina Highway (S/B) - Grant Avenue to Harrow Avenue	17%
221 2006	May 12	Broadway - Osborne Street to Sherbrook Street	25%
		LOCAL STREETS	
5 2006	May 5	2006 Residential Street Renewal Program	36%
183 2006	April 25	2006 Residential Street Renewal Program	18%
188 2006	April 28	2006 Residential Street Renewal Program	14%
189 2006	May 2	2006 Residential Street Renewal Program	29%
		AVERAGE ----	21%
*** 2006 REGIONAL AND LOCAL STREET RENEWALS CLOSED TO DATE**		44.31%	