**Agenda - Executive Policy Committee - April 23, 2003**

**Report - Standing Policy Committee on Public Works - April 15, 2003**

**Item No. 5 City of Winnipeg Policy for Infrastructure Reinvestment (SIRPIC) Part I of III: Redirection of Capital Debt Payments Toward Infrastructure Preservation File S-7 (Vol. 4)**

STANDING COMMITTEE RECOMMENDATION:

On April 15, 2003, the Standing Policy Committee on Public Works concurred in the administrative recommendation, and recommended:

1. That Council adopt the following as City of Winnipeg Policy:

   "That future reductions in tax-supported debt servicing costs occurring after 2004 be committed annually toward preservation of existing City infrastructure."

2. That this additional funding be used to supplement existing annual operating and capital budgets committed to preservation of infrastructure.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing, including the execution of any documents related thereto.

**Agenda - Executive Policy Committee - April 23, 2003**

**Report - Standing Policy Committee on Public Works - April 15, 2003**

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On April 15, 2003, the Standing Policy Committee on Public Works concurred in the administrative recommendation and submitted the matter to Executive Policy Committee and Council.

On February 11, 2003, the Standing Policy Committee on Public Works concurred in the administrative recommendation and laid consideration of the matter over to the meeting of the Committee scheduled for April 15, 2003.

On December 10, 2002, the Standing Policy Committee on Public Works directed that the Administration provide an update, including time lines, to the meeting of the Standing Policy Committee on Public Works scheduled for February 11, 2003.

On October 2, 2001, the Standing Policy Committee on Public Works considered Clause 1 of the Report of the Executive Policy Committee dated September 19, 2001, which included the following recommendations:

I. That the Standing Policy Committee on Public Works be requested to prepare a policy on Infrastructure Reinvestment for Council's consideration.

II. That the Standing Policy Committee on Public Works be requested to prepare a policy factoring maintenance costs into initial costs for Council's consideration.

III. That the Standing Policy Committee on Public Works consider as part of the policy review, the reinvestment of a portion of all tender awards being directed to strategic research and innovative partnership projects.

IV. That since its mandate is now complete, SIRPIC and its subcommittees be dissolved, with ongoing work regarding reinvestment policy implementation being referred to the Administration.

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

The Standing Policy Committee on Public Works referred recommendations I., II., and III. to the Administration for review, including input from and consultation with the Manitoba Heavy Construction Association, and report back to the Standing Policy Committee on Public Works, and further received as information recommendations IV. and V.

ADMINISTRATIVE REPORT

RE: CITY OF WINNIPEG POLICY FOR INFRASTRUCTURE REINVESTMENT
Part I of III: Redirection of Capital Debt Payments Toward Infrastructure Preservation

FOR SUBMISSION TO: Standing Policy Committee on Public Works

ORIGINAL REPORT SIGNED BY: J.A. Thomson, P. Eng., Director of Public Works

REPORT DATE: 13 March 2003

RECOMMENDATIONS:

A. That Council adopt the following as City of Winnipeg Policy:

"It is the Policy of the City of Winnipeg that future reductions in tax-supported debt servicing costs occurring after 2004 be committed annually toward preservation of existing City infrastructure."

B. That this additional funding be used to supplement existing annual operating and capital budgets committed to preservation of infrastructure.

Details:

This policy applies only to tax-supported infrastructure preservation.

1. Following the peak in tax-supported debt servicing costs in 2004, the City shall direct annually 100% of the reductions in tax-supported debt and finance charges from the 2004 level for investment in infrastructure preservation.
2. Beginning in 2005, and annually thereafter, the amount equal to the difference between the amount budgeted in 2004 for tax-supported debt servicing and the budgeted amount for tax-supported debt servicing in each future year will be used for infrastructure preservation.
3. The annual amount identified for infrastructure preservation will be allocated between the Departments on the basis of the existing tax-supported debt and finance charges carried by those Departments responsible for preservation of civic infrastructure.
4. The allocation to each Department must be used for preservation of existing civic infrastructure under the stewardship of that Department.
5. The type and location of the preservation work (capital and/or operating budgets) shall be recommended to Council as part of the annual capital and operating budget review processes.

REPORT SUMMARY:

Key Issues:

- Dedication of the difference between the maximum tax-supported debt and financing costs in 2004 (base amount) and the future tax-supported debt and financing costs are directed to infrastructure preservation.

Implications of the Recommendation(s):

General Implications:

| | |
|---|---|
| | None |
| X | For the organization overall and/or other departments |
| | For the community and/or organizations external to the City |
| | Involves a multi-year phase in process |

Comments: Once adopted, the recommended policy will affect (by increasing) the infrastructure preservation budgets of those tax-supported Departments responsible for infrastructure preservation.

Policy Implications:

| | |
|---|---|
| | No |
| X | Yes |

Comments: This report has been prepared in response to the direction of Council to recommend a policy for Infrastructure Preservation for Council to consider.

Environmental Implications:

| | |
|---|---|
| X | No |
| | Yes |

Comments:

Human Resource Implications:

| | |
|---|---|
| | No |
| X | Yes |

Comments: The recommended policy proposes additional funding which will result in increased in-house and contracted infrastructure preservation work.

Financial Implications:

| | |
|---|---|
| | Within approved current and/or capital budget |
| X | Current and/or capital budget adjustment needed |

Comment: The recommended policy will increase the infrastructure preservation budgets of affected Departments

REASON FOR THE REPORT:

On 26 September 2001, Council reviewed the 19 September 2001 report of the Executive Policy Committee (EPC), which presented the recommendations of the Strategic Infrastructure Reinvestment Policy Implementation Committee and the City's strategy and framework for implementation. The 30 recommendations were presented under two sections: Those that require Council adoption, and those that can be implemented through the issuance of administrative guidelines or specifications.
In summary, the Executive Policy Committee recommended the following:

I. "That the Standing Policy Committee on Public Works be requested to prepare a policy on Infrastructure Reinvestment for Council's consideration."
II. "That the Standing Policy Committee on Public Works be requested to prepare a policy factoring maintenance costs into initial costs for Council's consideration."
III. "That the Standing Policy Committee on Public Works consider as part of the policy review, the reinvestment of a portion of all tender awards being directed to strategic research and Innovative partnership projects."

The Department has prepared a report in three parts – one part for each policy recommendation – so that Council may consider each individually:

CITY OF WINNIPEG POLICY FOR INFRASTRUCTURE REINVESTMENT:

Part I – Redirection of Capital Debt Payments Toward Infrastructure Preservation
Part II – Adjustment of Infrastructure Maintenance Budgets for Inflation and Growth in Physical Inventory
Part III – Commitment to Strategic Municipal Infrastructure Research

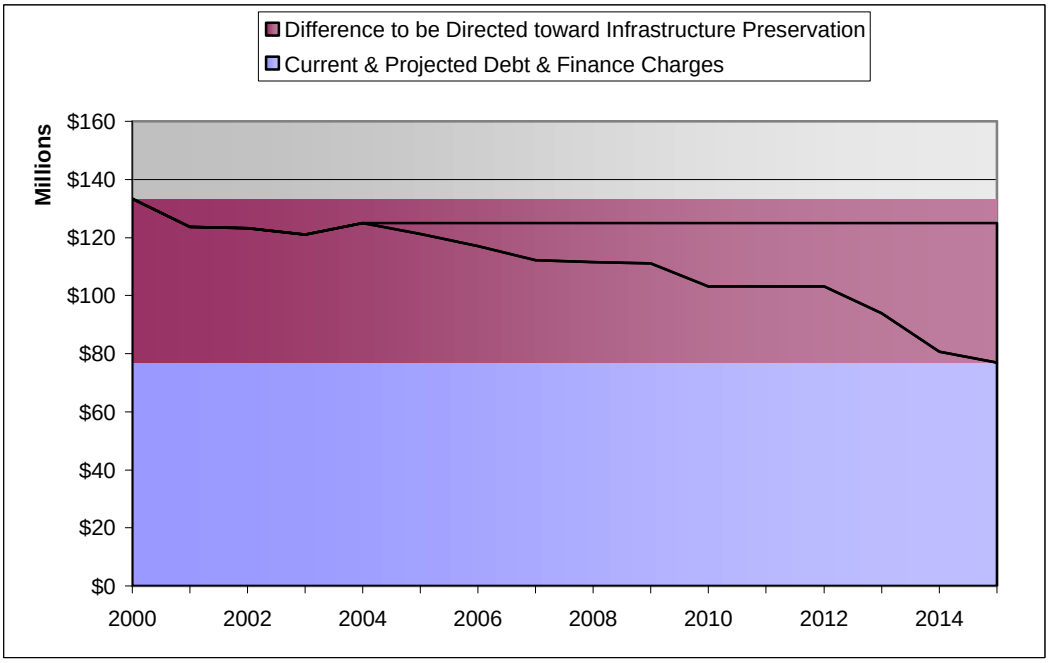
HISTORY:

The Strategic Infrastructure Reinvestment Policy (SIRP) report was released on 15 May 1998. The Report was considered by the Standing Policy Committee on Public Works on 29 June 1998, by the Executive Policy Committee (EPC) on 7 July 1998, and ultimately approved by Winnipeg City Council on 22 July 1998.
In accordance with the report's final recommendation, the SIRP Implementation Committee (SIRPIC) was struck with a mandate to "implement the adopted policy options". The SIRPIC's recommendations were presented to the EPC on 20 July 2000, and the EPC, in turn, requested a report outlining the City's strategy and framework with respect to priorities and the fiscal impact to the City.

DISCUSSION:

Infrastructure is the basic permanent physical systems of a community, including roadways, utilities, water, sewage, buildings and parks. These systems are considered essential for enabling productivity in the economy. Preservation includes all of the activities related to preserving the infrastructure condition for the benefit of present and future generations, including timely maintenance and renewal activities. This policy applies to the preservation of tax-supported infrastructure.

In 1996, in order to control increasing debt and financing charges, the City capped the external and internal financing of capital expenditures at $61 million. As a result, the amount of annual capital debt servicing costs due will peak in 2004 at $125.1 million, and decline thereafter to a level of $77.0 million by 2015, for cost reductions reaching $48.1 million per year.




The anticipated difference in debt and finance charges could be used by Council for various options – reduce taxes, offset expenditures, or apply the difference on a pay-as-you-go basis toward the existing infrastructure deficit. The impact of the latter option on infrastructure preservation is as follows:

| | Annual Capital Funding Available in 2015 | Pay-As-You-Go Financing Amount | Increase in Funding Since 2001 | Change in Funding After 2% Inflation |
|---|---|---|---|---|
| Status Quo Plan: ($61M peak in 2004) | $108.7 (estimated) | $61.0 | $16.3 | - $13.2 |
| Option 1: Apply 100% to Increase Pay-As-You-Go (+$48.1M) | $156.8 | $109.1 | $64.4 | $34.9 |
| Option 2: Apply 75% to Increase Pay-As-You-Go | $144.8 | $97.1 | $52.4 | $22.9 |
| Option 3: Apply 50% to Increase Pay-As-You-Go | $132.8 | $85.1 | $40.4 | $10.8 |
| Option 4: Apply 25% to Increase Pay-As-You-Go | $120.7 | $73.0 | $28.3 | -$1.2 |

Source: SIRP Implementation Committee Report, May 26, 2000 (updated March 2003 from Corporate Finance)
Option 1 provides the largest investment in infrastructure by 2015, especially after inflation is taken into account. Applying only 25% of the difference actually results in negative funding, as inflation would consume all of the increase.

These funds would be apportioned to those departments who currently have tax-supported infrastructure preservation programs, and who have been assigned the debt servicing costs related to the tax-supported capital program. In accordance with the policy, this funding would be used to supplement existing infrastructure funding, NOT to replace other funding sources.

Application of the debt servicing cost reductions to infrastructure preservation will, in part, address the annual funding deficit for infrastructure preservation, estimated to be $86.9 million in 2000 in the Public Works Department alone[1].

This policy is supported by Council's adoption of the Strategic Infrastructure Reinvestment Policy (SIRP – 15 May 1998), the SIRP Implementation Committee Report (SIRPIC – 20 July 2000) and most recently by Plan Winnipeg under Indicator 3D-01: Commit Foremost to the Maintenance and Renewal of Existing Infrastructure

[1] Source: *Financing Infrastructure Preservation – Challenges and Opportunities*, Public Works Department, 24 April 2001

## Financial Impact Statement — Date: March 14, 2003

**Project Name:** — **First Year of Program** 2005

### City of Winnipeg Policy for Infrastructure Reinvestment - Part I of III - Redirection of Tax-Supported Debt Payments to Infrastructure Preservation.

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| **Capital** | | | | | |
| Capital Expenditures Required | $ 3,800,000 | $ 8,000,000 | $ 13,000,000 | $ 13,600,000 | $ 14,100,000 |
| Less: Existing Budgeted Costs | | | | | |
| Additional Capital Budget Required | $ 3,800,000 | $ 8,000,000 | $ 13,000,000 | $ 13,600,000 | $ 14,100,000 |
| **Funding Sources:** | | | | | |
| Debt - Internal | $ 3,800,000 | $ 8,000,000 | $ 13,000,000 | $ 13,600,000 | $ 14,100,000 |
| Debt - External | | | | | |
| Grants (Enter Description Here) | | | | | |
| Reserves, Equity, Surplus | | | | | |
| Other - To Be Determined | | | | | |
| Total Funding | $ 3,800,000 | $ 8,000,000 | $ 13,000,000 | $ 13,600,000 | $ 14,100,000 |
| Total Additional Capital Budget Required | $ 52,500,000 | | | | |
| Total Additional Debt Required | $ 52,500,000 | | | | |
| **Current Expenditures/Revenues** | | | | | |
| Direct Costs | | | | | |
| Less: Incremental Revenue/Recovery | 38,000 | 80,000 | 130,000 | 136,000 | 141,000 |
| Net Cost/(Benefit) | $ (38,000) | $ (80,000) | $ (130,000) | $ (136,000) | $ (141,000) |
| Less: Existing Budget Amounts | | | | | |
| Net Budget Adjustment Required | $ (38,000) | $ (80,000) | $ (130,000) | $ (136,000) | $ (141,000) |

**Additional Comments:**

Assumptions:

1) This report and financial impact statement pertain to the City of Winnipeg as a whole (I.E.: all City Departments).

2) All additional funding for implementation of this policy would be through the City's Capital Estimates Process.

3) Incremental revenues represent 1% corporate administration.

4) No amount for the 2% interest charge or debt and finance charges have been assumed as funding for this Capital is considered "pay-as-you-go".

*Original Signed by D. Stewart*
Manager of Finance & Administration

Approved by Divisional Accountant Trainee: ☑

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH:
Corporate Finance Department

THIS REPORT SUBMITTED BY:

| | |
|---|---|
| Department: | Public Works Department |
| Division: | Engineering Division |
| Prepared by: | L.S.W. Larkin, P. Eng..... Phone No: 986-5008 |
| Processed by: | G. Foster..... Phone No: 986-4011 |
| File Name: | Part I - Redirection of Capital Debt Payments |