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

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

**Item No. 6 City of Winnipeg Policy for Infrastructure Reinvestment (SIRPIC) Part II of III: Adjustment of Infrastructure Maintenance Budgets for Inflation and Growth in Physical Inventory 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 the infrastructure maintenance and operation budget be adjusted annually by an amount not less than the inflationary increase of labour, equipment and material costs and to reflect any growth in physical inventory of the infrastructure."

2. That this Policy be effective for the 2004 Operating Budget of the City of Winnipeg.

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 II of III: Adjustment of Infrastructure Maintenance Budgets for Inflation and Growth in Physical Inventory

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

RECOMMENDATION:

That Council adopts the following as City of Winnipeg Policy:

It is the Policy of the City of Winnipeg to adjust the infrastructure maintenance and operation budget annually by an amount not less than the inflationary increase of labour, equipment and material costs and to reflect any growth in physical inventory of the infrastructure.

And that this policy be effective for the 2004 Operating budget of the City of Winnipeg,

Details:

1. When additions are made to the physical infrastructure inventory, there shall be an appropriate increase to the annual Operating and Maintenance Budget of the affected department.
2. Prior to discussion of the annual Operating and Maintenance Budget, the base amount from the previous year shall be adjusted to reflect the increases in cost of labour, equipment and materials, due to renewed collective agreement(s), equipment and material supply contracts and/or the effects of inflation.
3. New infrastructure budgets must include at least:
   a. Capital Cost of construction
   b. Cost of ongoing operation and maintenance, including life-cycle management costs, in the annual operating budget

## REPORT SUMMARY:

Key Issues:

- That the annual operating budget for maintenance and operation of the City's infrastructure has historically not kept pace with inflation and the expansion of our infrastructure.
- The impact of new infrastructure on the operating and preservation budgets into the future is currently not investigated when considering additions to our infrastructure plant,

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 (usually by increasing) the infrastructure operating and preservation budgets of those tax-supported departments responsible for infrastructure operation and preservation.

Policy Implications:

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

Comments: This report has been prepared in response to the direction of Council to recommend a policy 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: This policy will allow for ongoing increases to the infrastructure operating and preservation budgets.

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:

In recent years, infrastructure maintenance has been subjected to many instances of cuts and freezes, through the City of Winnipeg's Operating Budget. While seemingly minor from year-to-year, when viewed against the recommended practice of adjusting the maintenance funding to reflect inflation and additional inventory, the cuts are quite dramatic. The following table shows a basic calculation for the Effective Budget

Reduction in the Public Works Department for the period 1990 to 2000. The Public Works Department, like all civic departments, has tried, with moderate success, to absorb the bulk of these cuts through greater efficiency of operation, improved methods of maintenance and better technology. However, there has undoubtedly been a drop in the level of service of our public assets to the user as a result of the 20% net decrease due to inflation and the 8% net decrease due to the addition of new infrastructure. A true "hold-the-line" budget over these years – even accounting for improvements in efficiency – would have allowed the Department to conduct significantly more maintenance work, and reduce the maintenance backlog accordingly.

| | | Bridges | Buildings | Parks | Streets |
|---|---|---|---|---|---|
| 1990 Maintenance Budget[1] | A | $900,000 | $13,600,000 | $25,300,000 | $20,200,000 |
| Add: Cost of Inflation since 19 (20.74%) | B | $ 200,000 | $2,800,000 | $5,200,000 | $4,200,000 |
| Add: Maintenance Cost of New Inventory | C | $100,000 | $1,200,000 | $2,600,000 | $1,100,000 |
| 2000 Maintenance Budget, as projected from 1990[1] | D=A+B+C | $1,200,000 | $17,600,000 | $33,100,000 | $25,500,000 |
| Less: Actual 2000 Maintenance Budget | E | $800,000 | $9,200,000 | $22,200,000 | $18,000,000 |
| Effective Budget Reduction to 2 Since 1990 | E-D | ($400,000) | ($8,400,000) | ($10,900,000) | ($7,500,000) |
| Effective Percentage Reduction Since 1990[2] | (E-D)/D | -33.3% | -47.7% | -32.9% | -29.4% |

Notes: (1) Maintenance budgets include spending for the physical maintenance of the asset and do not include operational expenses such as street cleaning, snow clearing, athletic field marking and janitorial expenses.

(2) The Effective Funding Reduction does not include: (a) higher maintenance costs associated with non-standard infrastructure (such as in neighbourhood improvements and streetscaping projects); (b) the differences associated with real-costing of maintenance budgets (now including overheads such as employee pension, and building occupancy costs)

Table 1: Real cost of budget erosion in the Public Works Department between 1990 and 2000[1]

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

It is critical that maintenance and operating budgets be adjusted annually to reflect inflation. Furthermore, Council should be advised of the maintenance and operating implications associated with the addition of any new infrastructure, and such additional maintenance and operating budgets be included for approval when considering any capital additions to infrastructure.

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

**Project Name:** **First Year of Program** **2004**

## City of Winnipeg Policy for Infrastructure Reinvestment - Part II of III - Adjustment of Infrastructure Maintenance Budgets for Inflation and Growth in Physical Inventory

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| **Capital** | | | | | |
| Capital Expenditures Required | | | | | |
| Less: Existing Budgeted Costs | | | | | |
| Additional Capital Budget Required | $ - | $ - | $ - | $ - | $ - |
| **Funding Sources:** | | | | | |
| Debt - Internal | | | | | |
| Debt - External | | | | | |
| Grants (Enter Description Here) | | | | | |
| Reserves, Equity, Surplus | | | | | |
| Other - To Be Determined | | | | | |
| Total Funding | $ - | $ - | $ - | $ - | $ - |
| Total Additional Capital Budget Required | $ - | | | | |
| Total Additional Debt Required | $ - | | | | |
| **Current Expenditures/Revenues** | | | | | |
| Direct Costs | $ 1,170,750 | $ 1,141,580 | $ 1,157,062 | $ 1,172,953 | $ 1,199,262 |
| Less: Incremental Revenue/Recovery | | | | | |
| Net Cost/(Benefit) | $ 1,170,750 | $ 1,141,580 | $ 1,157,062 | $ 1,172,953 | $ 1,199,262 |
| Less: Existing Budget Amounts | | | | | |
| Net Budget Adjustment Required | $ 1,170,750 | $ 1,141,580 | $ 1,157,062 | $ 1,172,953 | $ 1,199,262 |

**Additional Comments:**

Assumptions:

The increase in direct costs includes an amount for 2% inflation and the increase in maintenance due to new physical infrastructure inventory.

Direct costs related to inflation at 2% calculated using a base tax-supported maintenance budget $50,200,000

Direct costs related to increase in physical infrastructure inventory are calculated using the projected 2004-2008 Capital Estimates assuming 5% of capital being new inventory and a maintenance factor on this new inventory of 5% per year.

*"Original Signed by Darcy Stewart, CA"*
Manager of Finance & Administration

Approved by Divisional Accountant Trainee: ☑

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH:
N/A

THIS REPORT SUBMITTED BY:

| | |
|---|---|
| Department: | Public Works Department |
| Division: | Engineering Division |
| Prepared by: | L.S.W. Larkin, P. Eng..... 986-5008 |
| Processed by: | G. Foster..... 986-4011 |
| File Name: | Part II - Adjustment of Infrastructure |