Agenda – Executive Policy Committee – June 11, 2019

REPORTS

Item No. 10 Unfunded Major Capital Projects

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the Public Service report back to Council before the end of 2019 with a City Infrastructure Plan which will comprise prioritized capital projects, including the listing of unfunded major capital projects outlined in this report, using the revised version of the asset management prioritization model.

2. That the Public Service incorporates the information from this report as well as the forthcoming City Infrastructure Plan into the Multi-Year Budget review.

3. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

Title: **Unfunded Major Capital Projects**

Critical Path: **Executive Policy Committee – Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
R. Taylor, Manager, Major Capital Projects Oversight	G. Chartier, Chief Asset and Project Management Officer	P. Olafson, Acting CFO	M. Ruta, Acting CAO

EXECUTIVE SUMMARY

The 2018 State of the Infrastructure report outlined the City's infrastructure deficit, across all city services, which totaled $6.9 billion over 10 years (2018-2027), for both new and existing infrastructure. This Unfunded Major Capital Projects report provides a summary of current information on 22 proposed unfunded major capital projects over the next 10 years. The unfunded major capital projects detailed in this report range in costs from $24 million to $1.8 billion. These 22 unfunded major capital projects have a total cost of over $4.9 billion of which nearly $4.5 billion is unfunded and together these projects comprise about 60% of the City's infrastructure deficit.

With several projects having recently completed preliminary designs, this report is meant to provide City Council and the public with an overview of these 22 unfunded major capital projects prior to Council making decisions on individual projects.

In addition, this report provides a financial / affordability context by outlining assumed possible federal and provincial funding, debt financing costs along with equivalent property tax increases and water and sewer rates increases needed to pay for the projects outlined in this report.

The City has significant financial challenges in funding operating expenditures as well as funding needed capital infrastructure projects. In order to assist Council in making capital budget decisions, the Public Service will develop a City Infrastructure Plan which will prioritize capital projects and will include the unfunded major capital projects outlined in this report. This information will be considered within the Multi-Year Budget review.

RECOMMENDATIONS

1. That the Public Service report back to Council before the end of 2019 with a City Infrastructure Plan which will comprise prioritized capital projects, including the listing of unfunded major capital projects outlined in this report, using the revised version of the asset management prioritization model.

2. That the Public Service incorporates the information from this report as well as the forthcoming City Infrastructure Plan into the Multi-Year Budget review.

3. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

On March 20, 2019, as part of the 2019 budget recommendations, Council directed that the Chief Administrative Officer report back in 2019 with a prioritization list of unfunded major capital projects. This report provides context in advance of the full prioritization report.

IMPLICATIONS OF THE RECOMMENDATIONS

The Public Service will report back to Council with additional information on project prioritization as well as include the information from this report into Multi-Year Budget discussions.

HISTORY/DISCUSSION

Background

In March of 2018, the City released its first State of the Infrastructure Report with a companion website, along with its first City Asset Management Plan. This information outlined the City's infrastructure deficit which totals $6.9 billion. Also in March of 2018, the City created the Unfunded Major Capital Projects website with basic project information.

Departments have recently completed preliminary design studies with corresponding Class 3 cost estimates for three major capital projects: Arlington Bridge Replacement, Chief Peguis Trail Extension West – Main to Brookside, and North End Sewage Treatment Plant (NEWPCC) Upgrades. On February 28, 2019 Council approved the NEWPCC preliminary design. Concurrent with this report, the Public Service is submitting reports on the preliminary designs for both the Arlington Bridge Replacement and the Chief Peguis Trail Extension West for Council's consideration.

The threshold for major capital projects is approved as part of the Capital Budget. The 2019 threshold is $23 million and is adjusted annually for construction inflation.

Unfunded Major Capital Projects

This report provides a summary of current information on 22 proposed unfunded major capital projects over the next 10 years. The unfunded major capital projects, detailed in this report, range in costs from $24 million to nearly $1.8 billion.

The project listing of proposed unfunded major capital projects is not a priority ranking. The projects are categorized alphabetically by department, and further by project name.

Community Services (over $200 million)

1. East of the Red Rec Plex

   South Winnipeg Recreation Campus (3 phases)
2. Phase 1 – YM/YWCA
3. Phase 2 – Community Centre
4. Phase 3 – Library

   Southeast Winnipeg Recreation & Library Facilities (2 phases)
5. Phase 1 – Community Centre
6. Phase 2 – Library

Public Works (over $1.7 billion)

7. Arlington Bridge Replacement
8. Chief Peguis Trail Extension West – Main to Brookside
9. Lagimodiere Twin Overpasses Rehabilitation
10. Louise Bridge Replacement
11. Marion Transportation Improvements
12. Route 90 Improvements – Taylor to Ness
13. St. Vital Bridge Rehabilitation
14. William Clement Parkway – Grant to Ridgewood

Winnipeg Transit (over $1 billion)

15. Electric Bus Pilot Project
16. North Transit Garage Replacement
17. Rapid Transit Corridors (3 corridors)

Water & Waste (over $1.8 billion)

18. Airport Area West Water and Sewer Servicing

    North End Sewage Treatment Plant (NEWPCC) Upgrades
19. Phase 1 – Power Supply and Headworks Facilities
20. Phase 2 – Biosolids Facilities
21. Phase 3 – Nutrient Removal Facilities

22. Southwest Interceptor – Phase 2

These 22 unfunded major capital projects have a total cost of over $4.9 billion of which nearly $4.5 billion is unfunded and together these projects comprise over 60% of the City's infrastructure deficit.

Estimated project costs for the 22 proposed projects are outlined on page 14, in the attached Unfunded Major Capital Projects Detail. These projects are costed in the year to meet level of service needs; or the earliest a Class 3 cost estimate is anticipated to be available; or due to project phasing.

This report is meant to provide order of magnitude costing information. Most of these unfunded major capital projects are at a class 5 cost estimate. The following outlines the accuracy range for the class of cost estimate:

Class 5:	-50% to +100%
Class 4:	-30% to +60%
Class 3:	-20% to +30%

The following three sections reference information relating to possible federal & provincial funding, debt & affordability outlined on page 15 in the attached Unfunded Major Capital Projects Detail. This attached information outlines assumed possible federal and provincial funding, debt financing costs along with equivalent property tax increases and water and sewer rates increases needed to pay for the projects outlined in this report.

Federal and Provincial Funding

If all of these proposed projects proceeded over the next 10 years, additional funding of nearly $4.5 billion would be required.

The primary current federal funding program is the Investing in Canada Infrastructure Program (ICIP) but the program has specific criteria / outcomes which projects need to meet. The program is focused on funding projects related to public transit, protecting the environment (including water and sewer projects) and community facilities such as recreation complexes and libraries. In addition there are funding limits as outlined in the Canada-Manitoba bilateral agreement. To access this federal funding, provincial participation is required. Currently, this federal funding program excludes roads and bridges.

This report assumes possible federal and provincial combined funding in excess of $1.2 billion:

- $97 million for community projects
- $734 million for transit projects
- $450 million for North End Sewage Treatment Plant (NEWPCC) Upgrades

Currently there are no intergovernmental funding project agreements in place for these projects.

City Debt Strategy

The tax supported unfunded major capital projects have combined project costs totaling $3.0 billion. After subtracting assumed possible federal and provincial funding of $0.8 billion, these tax supported projects have a remaining unfunded amount which totals nearly $2.2 billion.

The City's Debt Strategy outlines parameters which establish debt limits. The City's remaining capacity to borrow and stay within the Debt Strategy is approximately $150 million. Thus, if the City issued $2.2 billion of additional debt to fund these projects, it would greatly exceed the Debt Strategy.

Affordability

For the tax supported projects listed in this report, if debt were used to fund the remaining City share, annual borrowing costs plus incremental operating costs would accumulate over the next 10 years to approximately $170 million per year. This would translate to an equivalent property

tax increase of roughly 30% over the next 10 years or averaging 3.0% property tax increase annually for 10 years.

In addition to debt financing, an additional funding tool for growth-related projects is the use of impact fee revenue. Use of the impact fee revenue would decrease the need for debt.

Water and sewer rates would need to increase by roughly 37% over the next 10 years to pay for the $1.4 billion of the City's share of water and sewer project costs through cash and debt financing.

Project Prioritization and Forthcoming City Infrastructure Plan

The Public Service is currently reviewing its asset management prioritization model. Having been in use since the 2013 budget, the City has recently carried out a review and is in the process of incorporating improvements to the model to address limitations of the current model. Once the revised version of the asset management prioritization model is completed, the Public Service would then assess these projects using the revised model to develop a prioritized listing with a corresponding cost benefit point ratio.

Conclusion

These 22 unfunded major capital projects have a total cost of over $4.9 billion of which nearly $4.5 billion is unfunded and together these projects comprise about 60% of the City's infrastructure deficit.

With several projects having recently completed preliminary designs, this report is meant to provide City Council and the public with an overview of these 22 unfunded major capital projects prior to Council making decisions on individual projects.

The City has significant financial challenges in funding operating expenditures as well as funding needed capital infrastructure projects. In order to assist Council in making capital budget decisions, the Public Service will develop a City Infrastructure Plan which will prioritize capital projects and will include the unfunded major capital projects outlined in this report. This information will be considered within the Multi-Year Budget review.

FINANCIAL IMPACT

Financial Impact Statement **Date:** **May 22, 2019**

Project Name: Unfunded Major Capital Projects

COMMENTS:

There are no financial implications to the recommendations of this report.

(Original signed by T.Yanchishyn)
Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

- Public Works
- Winnipeg Transit
- Community Services
- Water and Waste
- Corporate Finance
- Legal Services
- Customer Service & Communications

OURWINNIPEG POLICY ALIGNMENT

Provide efficient and focused civic administration and governance. (p.49)

- Continue to implement life-cycle costing for capital projects and consider all relevant financing and delivery options.

Maintain strong intergovernmental cooperation. (p.50)

- Pursue cost-effective sharing agreements with other governments and with the private sector for priority infrastructure projects.

SUBMITTED BY

Department: Office of the CAO
Division: Infrastructure Planning Office
Prepared by: Rob Taylor, Manager, Major Capital Projects Oversight
Date: May 29, 2019

Attachments: Unfunded Major Capital Projects Detail