

PURPOSE

The purpose of this report is to analyze the options available for Council regarding the application of the capital levy approved at the December 16th, 2019 Finance and Administration Committee meeting.

BACKGROUND

Enterprise Asset Management Policy

In 2017, Council approved an Enterprise Asset Management Policy aimed at ensuring “municipal infrastructure systems are supported by plans and financing decisions that demonstrate effective service support and appropriate regard for managing lifecycle costs”. Life cycle costs are the total costs of assets throughout their useful life, including planning, design, construction, acquisition, operation, maintenance, rehabilitation and disposal. There are a number of principles in the policy that guide how investment decisions are made and when they are made to maximize the service value of assets while minimizing costs to taxpayers. These principles include meeting legislative requirements and service expectations, reducing maintenance costs, coordinating investments where possible to lower maintenance and replacement costs (e.g. Roads and water/sewer repair), environmental resilience and public / employee health and safety.

Capital Budget Policy and Capital Prioritization

In January 2019, Council approved a new Capital Budget Policy. The policy is significant for the direction it provides regarding the enterprise-wide approach to be used for identifying and funding capital budget priorities. The process for putting the policy into effect involves the preparation of business cases for candidate capital projects and their evaluation by a cross-departmental team of staff using a consistent evaluation method.

It is this team's role to recommend a prioritized list of capital projects to the Executive Leadership Team (ELT). ELT then reviews and endorses a list before recommending it to the Finance and Administration Committee as part of the annual budget.

The capital prioritization process considers several factors including the principles identified in the Enterprise Asset Management Policy. Budget preparers also consider service expectations, asset condition data, asset life cycle timing, maintenance reports, failure reports and community / operation feedback to recommend capital projects. The team collectively reviews each project to recommend a single, enterprise-wide ranked list of projects for consideration by ELT. ELT reviews this prioritized list in September in anticipation of preparing capital budget recommendations. Available funds, budget directions and professional judgment is reflected in a final recommended list of projects. Ultimately, the prioritized projects are published in a recommended capital budget for Finance and Administration Committee's consideration.

The prioritization tool currently considers the following factors using the noted weightings for each project out of a total of 50 possible points.

- Strategic Priority – 26%:
 - Strategic Plan – 7 points
 - Project Integration – 2 points
 - Shared Vision – 1 point
 - Societal / Qualitative ROI – 3 points
- Leveraging Funding – 12%:
 - Funding Opportunity – 4 points
 - Financial ROI – 2 points
- Risk Management – 44%:
 - Legislative Requirement – 8 points
 - Health and Safety – 4 points
 - Risk Exposure Factor (Probability x Consequence of failure of asset) – 10 points
- Asset Renewal / Restoration – 18%
 - Life Cycle Costing – 3 points
 - Service Level Impact – 3 points
 - City Asset Footprint – 1 point
 - Environmental ROI – 2 points

This evaluation and selection process is now two years old. It will continue to evolve, but it represents a thoughtful, comprehensive and objective method for identifying capital project priorities.

Capital Forecasting

Each year, the budget recommendations also include a 5 year capital outlook. These are capital projects that have been prioritized in terms of timing over the upcoming 5 year period but have not yet been prioritized and recommended to Committee. These projects are in a variety of stages. Some have teams working on design and engineering, others are known future requirements based on asset level of service information and are estimates based on the best available scope, timeframe and costs. The capital outlook for 2021 – 2024 (found at pages 455 – 460 of the 2020 budget) demonstrates that planning for asset investment is underway. These

plans are based upon Council strategic priorities, various master plans and prior program recommendations. Examples include the Depot Master Plan, the Arena Master Plan, Outdoor Court Revitalization, the Community Safety Department Facility Renewal project, various repairs and upgrades at 199 Larch and Tom Davis Square. These projects will make their way into future capital budget recommendations through the process outlines above. These are living plans that are constantly being updated and adjusted to ensure the highest priority investments are recommended in a timely fashion.

Asset Management Plan Recommendation

Annual budget recommendations have included consideration of a capital levy each year since amalgamation. Previous Councils approved one-time capital levies in 2005 (\$3.2 million), 2006 (\$3.0 million), 2007 (\$800,000) and 2008 (\$3.7 million).

In 2016, Council received a Municipal Asset Management Plan. That plan recommended “a multi-year program of affordable tax increases (e.g. 2% for five years) that would be restricted to capital”, citing a 10 year immediate infrastructure requirement of over \$3.1 billion. The report also recommended the use of debt for the financing of major capital projects, changes to the approach for capital funding (implemented with the capital budget policy change in January, 2019), and a focus on asset rationalization and service rationalization. The upcoming Core Services Review, scheduled for the January 21 City Council meeting, also recommends asset rationalization and service rationalization.

ANALYSIS

Staff identified six approaches Council could use to put the capital levy funds to use. All of them reflect the prioritization process used for capital budget development, consistent with the Enterprise Asset Management Policy and Capital Budget Policy. These include:

1. Transformational Renewal – this approach focuses on a major capital investment that transforms service performance. It anticipates the capital levy would serve as a funding source for a debt repayment plan, since the total cost of the projects identified here exceed \$80M.
2. Community Priorities – this approach focuses on capital investments that reflect the next highest-ranked projects, excluding the major capital investments noted in the first approach, using the capital budget prioritization tool
3. Asset Renewal/Restoration Priorities – this approach selects projects ranked highest on “asset renewal/restoration” criteria in the capital budget prioritization tool
4. Strategic Priorities – this approach selects projects ranked highest on “strategic priorities” criteria in the capital budget prioritization tool
5. Third-party Funding Priorities – this approach selects projects ranked highest on “third party funding opportunities” criteria in the capital budget prioritization tool

6. Roads Priorities – this approach does not reflect the enterprise-wide capital prioritization process; it anticipates Council may want to further accelerate road renewal work through either a new “local road improvement program” or an “arterial road improvement program” that would rely on special capital levy funds

Scenario 1 – Transformational Renewal

Committee could elect to use the \$4.1 million capital levy as a payment which at 3% over 30 years would immediately generate \$80 million in funding for capital. This option requires a “steady stream” of \$4.1 million each year over the next 30 years and options chosen would have to include the total cost for these projects in all years moving forward. Committee could direct that all or part of the \$4.1 million is used for debt financing where each \$1 million could generate \$19.75 million.

In this scenario, staff would recommend using the existing prioritization method and funding the next highest priority projects, including the Pioneer Manor Bed Redevelopment and Lorne Street / MR 55 from Power St. to Elm St. These projects total \$93million (\$84 million net of water wastewater contributions), but can be scaled to fit into the amount of debt financing available using the capital levy. These are the two largest and most highly prioritized projects which would be candidates for debt financing. These projects and a description for each are available in Appendix 1.

These are two large projects and although they are priority work, Committee could choose to do one of them and the remainder of the capital projects recommended for 2020 that fell short of the funding line. These projects form sub-options to this scenario labelled 1A and 1B where 1A includes Pioneer Manor Bed Redevelopment (but not Lorne Street / MR 55) and 1B includes Lorne Street / MR 55 (but not Pioneer Manor Bed Redevelopment). The lists of projects associated with these sub-options appears in Appendix 2.

Adding approximately \$80 million in projects would increase these averages to levels that would unacceptably increase the risk that projects will not have sufficient, appropriate oversight and require the temporary hiring of project manager(s) and project performance support staff (e.g. inspectors, contract managers, purchasing and finance resources etc.). Subject to the projects approved by Committee, in order to keep span of control required for average investment of this magnitude, it is anticipated that not more than 2-3 full time equivalent employees may be required. While these project costs would be funded by the capital levy, staff would return to Committee with a staffing plan and any impacts on schedule to either prior approved projects or chosen levy financed projects.

Operating budget implications, where they occur, will be incorporated into the associated budget directions report that year.

Scenario 2: Community Priorities

Appendix 3 highlights the next \$4.1 million in priorities responsive to the Capital levy direction for those projects in the 2021 – 2024 capital outlook which had been considered for funding in 2020. In considering which projects directly effect “the City’s aging infrastructure”, those projects that make necessary investments in existing infrastructure are highlighted. Finance and Administration Committee received this enterprise prioritization list in mid-November in preparation for budget deliberations. The list contains those projects that ultimately were not recommended for approval in 2020 in rank order.

Accordingly, the “Standard Capital Prioritization Scenario” recommends the funding of:

1. Tub Lift Replacements
2. Closure of hauled sewage sites at Dowling and Dryden
3. Dementia Care Enhancements
4. Tub Replacements
5. Waterfront Equipment Replacements
6. Arena Roof Replacements and Interior Drywall Upgrades
7. Various Technological Improvements in Transit
8. Repurposing / Decommissioning of Ski Lift Equipment
9. Copper Cliff Library Capital Repairs
10. Stormwater Regreening

These investments total \$4,957,271 of which \$910,310 may be eligible for ICIP funding pending approval.

Scenario 3: Emphasis on Asset Renewal / Restoration

This approach reassesses the prioritization process to focus on asset renewal/restoration as the highest ranked element. By placing a higher weighting on elements in the asset renewal / restoration section of the capital prioritization tool, projects with higher life cycle improvement value would come to the forefront and produce the following list of projects which is found in Appendix 4.

The Asset Renewal / Restoration Scenario recommends the funding of:

1. Arena Roof Replacements and Interior Drywall Upgrades
2. LEL Facility Improvements at GSPS

3. Final Cover of Stage 2 – Azilda Landfill
4. Final Cover of Stage 2 – Hanmer Landfill
5. Copper Cliff Library Roof Replacement
6. Playground Fieldhouse Repairs and Upgrades
7. Accessible Dining Room Furniture
8. 1960B Paris Street – New Windows

These investments total \$4,311,894 of which \$249,204 may be eligible for ICIP funding pending approval.

Scenario 4: Emphasis on Strategic Priority

This approach emphasizes projects with a clear link to the strategic plan, high levels of project integration (synergies with other capital or operating works) and high qualitative return on investment. This scenario is fully described in Appendix 5.

The Strategic Priority Scenario recommends the funding of:

1. 1920 Paris Street – Balcony Railing Replacement
2. 1778 LaSalle Boulevard – Siding and Insulation Upgrade
3. LEL Facility Improvements at GSPS
4. Non-Motorized Trails Master Plan
5. 1960B Paris Street – New Windows
6. Implementation of Various Technological Improvements in Transit
7. Tub Lift Replacements
8. Dementia Care Enhancements
9. Tub Replacements
10. Final Cover of Stage 2 – Azilda Landfill
11. Final Cover of Stage 2 – Hanmer Landfill
12. Copper Cliff Library Roof Replacement
13. TDS Courtyard Phase 2 along Paris St.

These investments total \$4,926,346 of which \$910,310 may be eligible for ICIP funding pending approval.

Scenario 5: Emphasis on Maximizing External Funding

As the title of this scenario implies, this approach emphasizes projects that could access third party funding sources. When prioritizing capital project proposals the team also assesses the level of certainty of funding. Some external funding is well understood and committed (e.g. support for Pioneer Manor Bed Redevelopment) other funds are subject to application processes and decisions. Staff have used best available estimates for funding in this scenario and would either have to return to Council or utilize additional funding from the Capital Holding Account should applications for external funding be unsuccessful.

The Maximizing External Funding Scenario recommends the funding of:

1. Implementation of Various Technological Improvements in Transit
2. Arena Plant SMART Hub Energy Updates
3. Pioneer Manor Bed Redevelopment
4. Outdoor Court Resurfacing / Conversion
5. Delki Dozzi Cycling Track Reinstatement / Upgrades
6. Playground Fieldhouse Repairs and Upgrades

Detailed descriptions for these projects are in Appendix 6.

These investments total \$4,917,143 of which \$1,602,183 may be eligible for funding from ICIP, Provincial Bed Redevelopment, New Horizon's and energy rebates, pending approval. The net total for these projects would be \$3,314,960 allowing for the funding of an additional \$800,000 from another scenario.

Scenario 6: Roads Priorities

This approach responds to feedback that calls for further, accelerated investments in the city's road network. While this may appear straightforward, there are several factors that should be considered when evaluating this approach.

Our current practice for determining priorities for road work in all classes considers five basic criteria.

These criteria include:

- Road condition and cost benefit analysis;
- Safety Concerns;

- Coincidence with Water / Wastewater priorities;
- Economic Development Potential; and,
- Reduction of Traffic Congestion.

Significant emphasis is placed on overall road condition.

Local Road Improvements

The approved 2020 capital budget includes a small set of local road projects valued at \$5.270 million. Committee may wish to consider funding \$4.1 million worth of additional local roads in 2020 or dedicate a portion of any debt financed amount to local roads.

Unlike a building or a piece of equipment, an old local road which has suffered significant deterioration can not be taken out of circulation and replaced with a new road. Roads which are in poor condition must be fully reconstructed, often requiring full depth gravel replacement, improved or new drainage systems, and in many cases in our community rock removal. A road which is in fair condition can often be rehabilitated for substantially less money allowing the City to extend the useable life of that road cost effectively. The capital program for many years has focused on extending the asset life for the least cost possible. In cases where an investment in a poor road also aligns with improvements in underground infrastructure, or has an economic benefit, or addresses a serious safety concern then the capital investment could be prioritized as a higher priority. The ability to address local roads in poor condition is limited and our method of asset management does not prioritize these investments.

Other municipalities have used capital levies (or a portion of them) to commence “residential road renewal programs”, if a local roads improvement program is selected, staff will return by the end of Q1 with a report identifying criteria and a selection process for the specific local roads that would be included in 2020. These projects would be prioritized along with the current schedule for local road rehabilitation and could be accomplished by the end of the construction season in 2021 for urban local roads or in 2020 for rural local roads.

Arterial Road Improvements

It is also possible for Committee to consider investing a \$4.1 million addition to the roads capital program for 2020. There are three projects that would be recommended to Committee which would commence in 2020 and would be completed by the end of the construction season in 2021. They are a combination of expanding the scope / limits of the existing projects approved for 2020 and looking at projects identified for construction in 2021. These projects also minimize the amount of design / administration to ensure the work can be tendered and begin in 2020. They also minimize overlap with other linear infrastructure so that the likelihood of earlier completion is high.

1. Old Hwy 69 (MR 80) North of Maley Drive to McCrea Heights (enhanced scope)
2. Capreol Road (MR 84) Cote Boulevard to Linden Drive
3. Old Hwy 69 (MR 80) South of Jean D’arc Street to North of Dominion Drive

CONCLUSION

There are a variety of readily identifiable capital renewal needs. Staff recommend the capital levy be the funding source for a 30-year debt payment that would allow the following projects to be accelerated:

1. Pioneer Manor Bed Redevelopment
2. Lorne Street MR 55 from Power Street to Elm Street

This approach would consume one tenth of the City's available debt capacity in accordance with the corporation's debt management policy. With an additional \$80 million in debt, the City's total debt charges as a percent of our "own source revenues" would move from 3% to 4%, still well within the level of debt charges incurred amongst our municipal comparators. It allows for projects to be addressed that are needed now, instead of waiting for a future annual capital budgeting process to fund them.

REFERENCES

Asset Management Plan

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=2&id=1034>

Enterprise Asset Management Policy Report

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=5&id=1271>

Capital Budget Policy Report

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=3&id=1303>

Pioneer Manor

<https://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=946&itemid=11169&lang=en>

<https://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1138&itemid=14272&lang=en>

<https://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1137&itemid=13068&lang=en>

Lorne Street

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&attachment=15272.pdf>