

2015-2018 Capital Budget Update

Progress on developing the 2015-2018 Capital Budget

Recommendation:

That the July 16, 2014, Financial Services and Utilities report CR_1452 be received for information.

Report Summary

This report updates Council on how Administration is proceeding with the evaluation and prioritization of capital profiles for the 2015 – 2018 Capital Budget.

Previous Council/Committee Action

At the May 14, 2014, City Council meeting, the following motion was passed:

1. That the draft 2015-2018 Capital Budget be developed based on fully funding the Risk-based Infrastructure Management System infrastructure renewal target.
2. That the Capital Project Prioritization Criteria for Growth Projects in Attachment 5 of Financial Services and Utilities report CR_1258, be used as a basis to score and rank growth projects for the draft 2015-2018 Capital Budget.
3. That the arterial roadway renewal funding for the 2015-2018 period be no less than \$55 million per year.

Report

Work on the 2015-2018 Capital Budget began in the summer of 2013, with the first goal to assemble a list of projects that could be considered for the next ten year planning horizon (2015-2024). Work was also performed to develop a prioritization process, including scoring criteria, and a comprehensive Risk-based Infrastructure Management System analysis, to help Administration and Council in their consideration of these projects.

With Council's decision to fully fund the renewal requirements, each of the city's asset categories were assigned their respective renewal allocations. Departments are currently preparing the various stand-alone and renewal composite profiles based on their respective renewal needs. A preliminary listing of these profiles is provided in Attachment 1. Individual budget analysis and business case development is underway and detailed profile recommendations will be presented to Council with the final draft budget submission. The overall renewal budget is expected to be in the order of \$1.86 billion over the 4-year period. Administration is working to translate the high level Risk-based Infrastructure Management System analysis into real projects, and this work somewhat depends on which growth profiles are selected, as they may also address legitimate renewal needs that need to be factored into the overall design of the capital plan. It is expected that a portion of the renewal budget will contribute to growth projects due to the fact that many of the growth projects include some aspect of

renewal. However, the level of contribution would be limited to elements that have or will soon reach the end of their design life.

With targeted renewal funding based on an amount that is averaged over four years, the impact of very large rehabilitation projects in any given capital program can be difficult to address. One large project may take up a significant portion of the annual allocation, which can have adverse impacts on the optimum scheduling for other rehabilitation work. Administration recognizes that such projects may need to be treated differently from others. In the 2012-2014 Capital Budget, the Walterdale Bridge was debt funded. The Westwood Garage project, being considered in the 2015-2018 Capital Budget, is similar in scale and includes a significant portion of renewal in its costs. Capital reserves could be utilized over the long term to smooth out the financial impacts of these large projects and could be considered in the future, but would need to be explored in more detail.

In June, Administration scored all growth capital profiles being proposed for consideration in the 2015-2018 Capital Budget using the Growth Scoring criteria. To ensure consistency in the application of the criteria, the Administration's Capital Priorities Planning Committee peer reviewed over 50 profiles, and will peer-review the balance of the growth projects before the budget is finalized. Administration also weighted the seven primary criteria with the following results:

- Mandate, Geographic/Organizational Impact and Operational Risk were weighted approximately equal at 18% each
- Value for Money and synergies between Growth and Renewal were next at approximately 14% each
- Strategic Alignment was weighted at 12%
- Project Readiness was weighted at 6%

The overall priority score helps to provide a general indication with respect to the importance of individual growth projects, but it is not the only factor determining the final recommended list of projects. The final list must also consider the overall cost of an individual project relative to the total funding available, the opportunity to leverage other city or private sector projects, and the ability of the Capital Budget to deliver projects that the public has traditionally expected (e.g. new neighbourhood park development, new traffic signals, etc.).

Attachment 2 provides the listing, grouped by departments, of all growth projects under consideration. There is still work to be done by Administration to develop the final recommended list that will be presented to Council in the Fall, namely:

- Scores may change for those projects that have not yet been peer-reviewed by Administration
- Corporate Leadership Team review of project list
- Optimizing of the funding of these projects, including grants
- Reconciliation of the renewal components of these profiles with the Risk-based Infrastructure Management System renewal recommendations

- Consideration of the feedback of Council from this report

Projects without a supporting business case will not be advanced.

For projects that contain a mix of growth and renewal work, Administration will assess the impacts of advancing the project from both a growth and renewal perspective. If a project is scoring high from a growth perspective, but is not essential or optimum timing from a renewal perspective, enhancement/growth components may need to be postponed to coincide with renewal/timing. This is more likely if the majority of the project is focused on renewal.

Funding Update

The April 14, 2015 Capital Investment Agenda report indicated that the estimated amount of unallocated funding available for growth related projects would be approximately \$150 million over the 4-year period. The peer review process has resulted in a number of projects being identified as potentially “must fund” based on either prior project commitments or the need to maximize grants from other orders of government. These projects include:

- Final payment for the purchase of the Grant MacEwan facility in the west end: \$16 million
- Funds to cover non-grant eligible costs for River Valley Alliance Projects: \$2.4 million
- City’s funding contribution towards the pedestrian bridge beneath the North East Anthony Henday river crossing bridge: \$2 million
- Site development for upcoming new Public and Catholic Schools: \$ 4.1 million
- Brownlee Building Pedway: \$700,000
- Galleria Pedway: \$3.1 million

The above items will reduce the amount of funding available for new growth projects in the 2015-2018 Capital Budget to approximately \$120 million.

The 2015-2018 Capital Budget also proposes a number of projects with dedicated funding that is not part of the \$120 million value. These projects have either been previously approved, are self-funded or included as part of Community Revitalization Levy projects, and are included in Attachment 3. Administration is currently reconciling Community Revitalization Levy renewal projections against the timing of projects. Depending on the reconciliation results, projects may need to be delayed or interim funding sources may need to be applied.

Information Technology Projects:

To assist in the review of Information Technology projects, Administration has set up an Information Technology governance framework that considers Information Technology investment separately, but parallel and integrated with core capital investment. A number of Information Technology renewal and growth projects are being

considered. Since it is difficult to align Information Technology growth projects to the Growth Scoring criteria, Administration is proposing to assign a portion of the available growth funding to fund a pool of Information Technology growth projects. This amount will be based on historical Capital Budget allocations to Information Technology and take into account comparators in the public sector, as well as internal capacity to deliver. Preliminary estimates suggest that these Information Technology growth projects will total approximately \$25 million over the 2015-2018 Capital Budget. In addition to this amount, there will be a number of larger stand-alone Information Technology projects that Administration will assess and prioritize against other growth projects. This will be in addition to the \$74 million renewal allocation to Information Technology infrastructure.

Discussions with Councillors:

At the time of writing this report, Administration has completed all but two of the one-on-one meetings with City Council. In general, Councillors acknowledged that funding for new growth projects was very constrained, however, there was a desire to continue to advance some of the larger projects through design and land acquisition efforts. A sampling of key comments include (note these comments were not necessarily articulated by all Councillors):

- The need for the City to have a list of other potential projects that Edmonton could submit under the National component of the Building Canada Fund program.
- There are very few growth projects identified for the mature areas. Councillors are very pleased with the neighbourhood renewal program and the smaller scale enhancements being implemented through complementary capital programs such as Great Neighbourhoods.
- Councillors representing outlying Wards have concerns about the ability to keep pace with growth (e.g. roads, neighbourhood parks, fire stations, etc).
- Progress on transformational projects (LRT, CRLs, Blatchford) needs to continue.

Next Steps:

Administration will continue to develop the 2015-2018 Capital Budget based on work done to date with the prioritization process, input from the one-on-one Council meetings, and feedback from this report. Business cases will be developed for the top 30 growth projects. Council could also direct Administration to prepare additional business cases for individual projects not included in the top 30.

Given the significant funding constraints, it is very likely that growth projects over the next 4 years will need to focus on primarily smaller scale and/or multi-location composite projects, while at the same time moving forward on design and land acquisition for major projects for future capital cycles, and continuing to deliver the transformational projects begun by previous City Councils.

Policy

The Way We Finance

Corporate Outcomes

The Capital Budget supports all the Corporate Outcomes in *The Way Ahead*.

Attachments

1. Capital Priorities Plan 2015-2018 Renewal Profiles
2. Capital Priorities Plan 2015-2018 Growth Profiles
3. Capital Priorities Plan 2015-2018 Growth Profiles with dedicated sources of funding

Others Reviewing this Report

Corporate Leadership Team