

THE CORPORATION OF THE CITY OF WINDSOR
Office of the City Treasurer – Asset Planning

**MISSION STATEMENT:**

"Our City is built on relationships – between citizens and their government, businesses and public institutions, city and region – all interconnected, mutually supportive, and focused on the brightest future we can create together."

LiveLink REPORT #: 18045 AFB/12131	Report Date: November 10, 2015
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To: Mayor and Members of City Council

Subject: 2016 Capital Budget 5-Year Plan

1. RECOMMENDATION: City Wide: Ward(s): _____

THAT Council **RECEIVE** the 2016 Capital Budget 5-year Capital Plan documents; and

THAT Council **APPROVE** the recommended 2016 funding allocation for capital projects totalling \$112,254,000 (subject to any further changes approved by Council, including consideration of dedicated levy funding as presented by the asset management team); and

THAT Council **APPROVE IN PRINCIPLE** the recommended 2017 to 2020 capital expenditures and funding allocations totalling a further \$401,429,000 (subject to any further changes approved by Council).

EXECUTIVE SUMMARY:

N/A

2. BACKGROUND:

At its meeting of August 24th, 2015 Council adopted the following resolution:

M345-2015

*THAT the report of the Chief Financial Officer & City Treasurer dated July 27th, 2015 regarding the 2016 Proposed Budget Process & Timeline **BE RECEIVED** for information.*

Essentially the report laid out a timeline aimed at getting the 2016 capital budget (as well as the operating budget) to be approved by Council on December 7, 2015, unless otherwise directed by Council. At the Council meeting of November 16, 2015, Council formally ratified the results of an email poll approving December 21, 2015 as the revised council deliberation date in order to allow some pre-budget reports to be considered by Council prior to the budget deliberations.

3. DISCUSSION:

On January 19th, 2015 Council approved the 2015 - 2019 5-Year Capital Plan (per B22-2015). The 2016 capital budget being submitted to Council updates that plan for the 2016 - 2020 timeframe. Therefore, this plan brings forth an additional year (2020) and, as well, contains some recommended changes to projects that were previously approved by Council in principle only for the 2016 - 2019 years.

Overall Funding

Total funds of \$513.7 million are projected to be available in this 2016 - 2020 5-year plan as detailed on page 11 of the 2016 Recommended Capital Budget book.

Contributions from the operating budgets remain largely unchanged from those in the 2015 budget. However, the funding stream for sewer projects was increased again by \$2 million, in 2016, from the redeployment of a \$2 million contingency provision in the sewer surcharge fund. A contingent provision was prudently included in the 2015 budget to mitigate the risks of decreased revenues due to a continuation in the trend of lower water consumption, and to mitigate unforeseen expenditures (which can arise in any budget forecast). Based on the projected results for fiscal 2015, it has been determined that the contingent provision will not be required and can therefore be redeployed to increase sewer related capital funding in the 2016 budget without impacting the sewer surcharge rates.

Funding Allocated to Prior Year Commitments

As can be seen in the chart below, \$92.7 million of the \$513.7 million available funding in 2016 - 2020 has been committed to projects approved in prior years.

Funding Allocation	5-Year Capital Plan					
	2016 (\$ 000's)	2017 (\$ 000's)	2018 (\$ 000's)	2019 (\$ 000's)	2020 (\$ 000's)	TOTAL (\$ 000's)
Funding Allocated to Prior Year Commitments						
2013 Enhanced Plan	26,282	28,640	7,811	-	-	62,733
2014 Enhanced Plan	10,000	10,000	10,000	-	-	30,000
Total Funds Allocated to Prior Year Commitments	36,282	38,640	17,811	-	-	92,733

These commitments include:

1. By way of council resolution B26-2013 during the 2013 budget deliberations, Council approved an enhanced capital plan of approximately \$64.3 million. Of that amount, \$1 million was funded in 2013, \$500K in 2014 and \$100K in 2015. The remaining \$62.733 million to be funded in 2016 - 2018.

The chart that follows shows which major categories the projects to be funded from 2016 - 2018 were distributed to.

2013 Enhanced Plan to be Funded in Future Years		(S 000's)
Community & Economic Development		8,050
Corporate Property Infrastructure		18,000
Corporate Technology		5,900
Parks & Recreation		3,350
Roads		25,733
Transportation Infrastructure		1,700
Total 2013 Enhanced Plan Funded in Future Years		62,733

- By way of council resolution B38-2013 during the 2014 budget deliberations, Council approved an enhanced capital plan of approximately \$58.5 million. Of that amount, \$18.5 million was funded in 2014, \$10 million was funded in 2015 and the remaining \$30 million is to be funded by Pay- As-You-Go funding contributions from the operating budget in 2016 - 2018. The chart below shows which major categories the projects to be funded from 2016 -2018 were distributed to.

2014 Enhanced Plan to be Funded in Future Years		(S 000's)
Community & Economic Development		2,900
Corporate Property Infrastructure		9,800
Parks & Recreation		2,732
Roads		5,490
Transportation Infrastructure		3,600
Contingency		5,478
Total 2014 Enhanced Plan Funded in Future Years		30,000

Completion of capital projects can take several years from the planning and engineering phase until they are completed. The early approval of the funding for such projects has allowed Administration to undertake the necessary planning and engineering studies for these projects, with assurance that funding to implement the project is available.

Allocation of Available Funding

The capital budget 5-year plan funding allocation of the \$420.95 million in available funding not previously committed can be seen in the table below. Of note, at this time \$10 million dollars in funding that will be available in 2020 has been left unallocated to allow for additional funding flexibility and in anticipation of major required capital funding for projects that are not yet quantified and funded in the current 5-year plan.

Funding Allocation	5-Year Capital Plan					
	2016 (\$ 000's)	2017 (\$ 000's)	2018 (\$ 000's)	2019 (\$ 000's)	2020 (\$ 000's)	TOTAL (\$ 000's)
Allocation of Available Funding - by Major Category:						
Community & Economic Development	2,815	273	535	8,505	8,398	20,526
Corporate Property Infrastructure	9,342	5,070	8,657	13,139	4,572	40,780
Corporate Technology	6,935	1,240	1,495	5,228	2,045	16,943
Allocation to Reserves	3,210	3,210	3,210	3,210	3,210	16,050
Parks & Recreation	4,069	3,149	6,094	9,225	4,308	26,845
Roads	16,831	15,747	27,458	22,544	27,847	110,427
Sewers	25,970	26,080	23,545	26,335	23,355	125,285
Transportation Infrastructure	6,801	8,840	10,658	13,001	14,795	54,094
Unallocated Contingency	-	-	-	-	10,000	10,000
Total Allocation of Available Funding	75,972	63,609	81,653	101,187	98,530	420,950

It should be noted that included in the totals above are projects that Council may have already pre-approved for priority projects including a number of road and sewer projects. Detailed listings of projects for each of the categories in the table above can be found starting on page 12 of the 2016 Recommended Capital Budget book.

Long Term Debt Considerations

Consistent with the very successful Pay-As-You-Go approach which has saved tens of millions of dollars in interest costs, the 5-year plan is funded from available funds without the use of long term debt. Details of the City's long term debt, which show the continued decline in the liability, are being provided to Council as part of the 2016 Operating Budget document.

It is worth noting however, that long term debt currently stands at approximately \$98 million and is projected to decrease to \$71 million by 2019. This is down from a peak of \$229 million in 2002. Importantly, these dramatic decreases in long term debt have coincided with the largest capital programs in the City's history. Therefore, it is estimated that debt levels would currently stand at approximately \$500 million without the Pay-As-You-Go funding approach.

Public Consultation Process

The 2016 Budget process provided the opportunity for public input sessions at the beginning of the process on July 27th, 2015. Additionally, public input can occur during budget deliberations. The Ward Meetings also provided residents with the opportunity to voice their preferences and priorities.

The 2016 Capital Budget documents will be publicly available on November 30th, 2015 and will be available for viewing in every branch of the Windsor Public Library and at City Hall (Office of the City Clerk & Office of the Chief Financial Officer), and on the City's web site.

Authority to Award Tenders

As per the recently revised Purchasing Bylaw, awards of tenders meeting certain specifications will be awarded directly by Administration (in order to expedite completion of the projects) subject to the following conditions:

- the tender is being awarded to the low bidder,
- the low tender meets the required specifications for the project,
- the low tender meets all the requirements of the purchasing bylaw
- the low tender is within budget for the project

For tenders meeting the noted above criteria, Administration will prepare a Delegation of Authority (DOA) report to award the tenders and then report the various awards to Council through the normal DOA semi-annual reporting process.

4. RISK ANALYSIS:

As is the case in any budget, there are a number of risks that are inherent in the capital plan being recommended. The more potentially significant ones are the following:

- The only way to truly know the actual costs of the various projects is after the completion of the related tenders. Therefore, the primary risk at this time is that the actual costs of some of the projects will turn out to be greater than budgeted. This risk is likely to almost certain to occur and the consequences of such occurrences, based on past experience, would be expected to be moderate, classifying this as a significant risk.

Mitigation of this risk comes from four primary sources: the likelihood that some projects will come in under budget, thereby offsetting the overages; contingency funds that remain available within the 5-year plan from prior years approvals; the cost estimates having been made based on experienced and professional judgment; the ability to free up funds from future year projects that have been approved only in principle.

- The risk that the funding stream projections over the 5-year planning horizon will not materialize to the full extent projected. This risk is likely to materialize but the seriousness of the consequences are expected to be low as most funding streams are known and under the control of the City itself. Therefore this can be classified as a moderate risk and can be mitigated by some of the same mitigating measures noted under the first risk above.
- There is also a risk, common to all Ontario municipalities, that the funding sources available to the municipality, notwithstanding significant increases over the last 10 years, are not sufficient to tackle the infrastructure deficit. This risk is considered likely to almost certain to occur and with the seriousness of the consequences being high, making this a critical risk (albeit a risk that nearly all municipalities face).

Mitigation for this risk is a long term proposition and requires a multi-faceted approach. As noted, the City of Windsor has increased funding for capital projects over the years, including by a sustainable \$10 million annually as part of the 2014 budget approvals. Municipalities, through AMO and FCM, will need to continue to lobby the senior levels of government for broader and more sustainable infrastructure funding sources. The corporation prepared its first formal Asset Management Plan in 2013 and is currently

developing a formal process to define desired levels of services and the required funding levels to sustain those levels of service. These undertakings will help to better define the noted risks and allow the corporation to develop additional mitigating measures.

5. FINANCIAL MATTERS:

Financial matters have been discussed throughout the report. The focus of the 5-year plan is on roads, sewers and related projects, with a total of \$326.3 million of funding (out of total available funds of \$513.7 million) being recommended for these types of projects.

As previously reported to Council, the funding for capital projects has doubled in the last decade or so. In order to maximize the effectiveness of this increased investment in its capital infrastructure, Council previously approved the ongoing Asset Planning Work Plan. The results of that work plan will provide the data and information needed to help Council define desired and quantifiable levels of service for each asset category. It will also help to define the level of risks that the Corporation is willing to accept for each asset class.

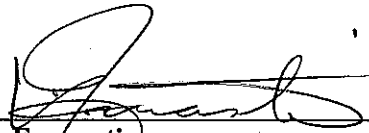
The current work being carried out as part of the Asset Management work plan will result in the ability to provide, sequentially over the next few years, 20-year funding requirements (aimed at meeting council's service goals) for the various asset categories based on desired service levels and acceptable levels of risk. Administration is currently planning to present options for a long term enhanced funding program for roads rehabilitation at the November 23rd, 2015 meeting of the Executive Committee of Council. Projections for other asset classes will follow in subsequent years as the available asset information for those assets is refined. The 5-year plan currently being presented to Council does not include the potentially increased funding from the noted long term enhanced roads funding models. Should Council approve the enhanced funding, that funding would be in addition to that noted in this report and would increase the amount dedicated to roads rehabilitation during the current 5-year plan and beyond.

6. CONSULTATIONS:

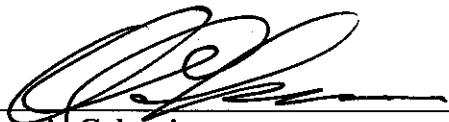
All City Departments (including Windsor Public Library and Transit Windsor) were asked to update 2016 to 2019 capital budget needs and to submit capital budget requests. The city's capital budget also includes projects for the Windsor Police Service and the Windsor Airport (YQG) and those organizations were also asked to do likewise. Given the significant capital budget in the Office of the City Engineer (more than 80% of the available capital budget funding), the City Engineer undertook a significant role with the Finance department in attempting to achieve balance and to address to the extent possible, the needs across all areas of the corporation and relevant Agencies, Boards and Committees.

7. CONCLUSION:


The 2016 Capital Budget 5-Year Capital Plan, totalling \$513.7 million, is being recommended to Council consistent with directions previously received. As always, Council has the ability to reprioritize the recommended expenditures subject to the total funding envelope and any funding source restrictions. Additionally, Council may choose to enhance the funding dedicated to the capital budget in order to undertake additional priority projects.



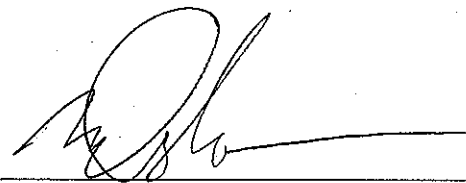
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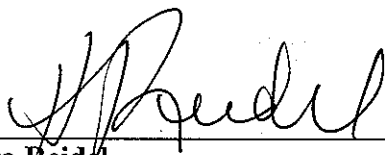
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