HALIFAX

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Item No. 03
Committee of the Whole
February 15, 2017

TO:	Mayor Savage and Members of Halifax Regional Council
SUBMITTED BY:	Original Signed by Jacques Dubé, Chief Administrative Officer
	Original Signed by Jane Fraser, Acting Deputy Chief Administrative Officer
DATE:	January 30, 2017
SUBJECT:	Street Recapitalization Funding

ORIGIN

The December 14, 2016 Committee of the Whole passed a motion recommending that Regional Council request staff look at options to retain the funding levels established in the 2016-2017 capital budget Street Recapitalization and report back to Council.

LEGISLATIVE AUTHORITY

Pursuant to the Halifax Charter, section 35 (1), the Chief Administrative Officer shall (b) ensure that an annual budget is prepared and submitted to the Council.

RECOMMENDATION

It is recommended that Halifax Regional Council:

1. Increase the proposed capital funding for Street Recapitalization in fiscal 2017-18 by $ 2.9 million to $23.915 million, which when added to the $16.2 million carryover results in a $40.1 million 2017-18 Street Recapitalization program.

2. Direct staff to increase funding for Street Recapitalization to $30 million in 2018-19, subject to using additional funding becoming available from federal/provincial cost sharing and CAPPOOL/CRESSPOOL[1] to Street Recapitalization; and

3. Direct staff to budget for increased Street Recapitalization funding in fiscal 2019-20 and 2020-21 to reflect the funding levels presented in the 2016-17 Capital Plan, as supported by the pavement management system data.

[1] CAPPOOL contains remaining funds from closed accounts that been funded through capital from operating. CRESSPOOL contains remaining funds from closed accounts that had been funded from reserves.

BACKGROUND

On December 14, 2016 staff presented the ten-year capital plan (2017-18 to 2026-27) to the Committee of the Whole on Budget. The projects included in the ten year capital plan were presented in groups from years 1 to 5, with projects contained in years 1 through 3 being designed or in progress. Projects in years 4 and 5 were more planned projects or multi-year projects that would be completed within that timeframe. The projects listed in years 6 to 10 are regional strategic projects that Regional Council approved on July 29, 2014. These projects were presented as an order of magnitude, as opposed to presenting a detailed cash flow for the projects. In addition to the regional strategic projects major municipal initiatives, that would have an impact on the capital plan, were also included in the 6-10 year timeframe. An example of this is the Integrated Mobility Plan.

The 2017-18 fiscal year is the first year for multi-year budgeting within the Municipality, the 2017-18 capital plan that was presented for approval and the 2018-19 capital plan that was presented for approval in principle were both balanced. In order to present a balanced capital plan for the two fiscal years members of the Capital Steering Committee were required to revise project budgets that had been allocated in previous capital plans.

In order to deliver a two year capital plan that was balanced the Steering Committee reviewed the capital project list in detail. The Steering Committee considered a number of factors in recommending funding levels for the capital plan, such as: what was the state of readiness of the project? Was the project ready for construction, or was it a concept? Was the project a multi-year project and if so was the cash flow that was being proposed realistic? Does the business unit that is responsible for delivery of the project or program have the capacity to deliver the full program? Committing budget resources to a project that cannot be delivered in the fiscal year means that fiscal capacity is being used at the expense of other projects that are at a higher state of readiness.

The recommendation to reduce the program funding for Street Recapitalization in 2017-18 to $21 million from the proposed level of $30 million as presented in the 2016-17 Capital Budget Book was based on the department's ability to deliver the full capital plan. Transportation and Public Works (TPW) was in the process of rebuilding their Design and Construction Services division and as a result did not achieve their usual standard of project completion. Traditionally TPW tenders and/or projects completed is approximately 95% of their capital program. In fiscal 2016-17 the Design Group was only able to tender approximately 65% of their program. This has resulted in a back log of work, or carry over from the 2016-17 construction season to the 2017-18 season. Based on the Q3 (quarter ending December 31st) capital projections, there is approximately $16.2 million in carry over in the street recapitalization project account. (Note: Carry over is the accumulated total of funds that have been approved in previous capital budgets but not tendered or expensed).

The table below details the historic spending and percentage tendered by TPW for Street Recapitalization over the last five fiscal years. It should be noted that HRM does not budget for Halifax Water additional work. When Halifax Water is carrying out work in the street, Design staff will coordinate their work plan and may project manage the work on behalf of Halifax Water, while this is an efficient approach to project delivery it does impact the Design team's ability to deliver on the street recapitalization program.

It is worthy of note that through Council's pay as you go program of increasing the amount of operating budget directed to the capital state of good repair budget on an annual basis, the street recap budget has grown from $18.5M in 12-13 to $30.1M in 16-17; and increase of 2/3rds or 63%. During this time, staffing remained constant, the carryforwards began to accumulate with the growing budget and this year, the team is projecting to spend at levels consistent with the 13-14 budget of $20.9M. With Council's support and the completion of the rebuild of the Design and Construction Services Division, the team is adapting their staffing to increase their capacity to deliver on the 17-18 street recap budget, however they are not confident that this is possible with an anticipated carryforward of $16.2M into 17-18 for a total of $40.1M in available funds. It is likely that carryforwards will come down in 17-18 but will still be available in 18-19, albeit to a lesser extent.

Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17
Previous Carry Fwd.	$ 5.0 M	$ 4.3 M	$ 7.4 M	$ 5.0 M	$ 7.5 M
Street Recap Budget	$18.5 M	$20.5 M	$19.5 M	$25.1 M	$30.1 M
Halifax Water Addition	$ 5.6 M	$ 5.2 M	$ 5.9 M	$ 4.4 M	($ 0.5) M*
Total Program	$29.1 M	$30.0 M	$32.8M	$34.4 M	$37.1M
Actual Spend	$24.8 M	$22.6 M	$27.8 M	$27.0 M	$20.9 M
Carry Forward to Next	$ 4.3 M	$ 7.4 M	$ 5.0 M	$ 7.5 M	$16.2 M

*negative balance is the result of year-end accruals

The 14.5 FTE staff complement of the Project Planning and Design unit remained constant between 2012 and 2016. In recognition of the growing demand for these services, an existing vacant position was converted to an additional FTE (design engineer) position in this unit in November 2016. In addition, some design work and project contract specifications have been assigned to external consultants to assist in delivering this program.

DISCUSSION

The 2014-15 capital budget process changed from one where the full project amount was included in the capital program budget to one that was based on cash flow – matching how much work was estimated to be done in the fiscal year with the project budget request. This change allows for better project management and increased accountability. Projects were also categorized into discrete projects and bundled projects. Discrete projects are larger projects that are managed as a single project, the project may be made up of a number of components. Prior to the change a single project would have received funding from a number of bundled accounts. The bundled approach made it very difficult to project manage, report on costs, or hold managers to account for the effective budgeting of the project. As an example, a renovation at a recreation center may have received funding from a roof account, a site account, exterior repair, interior repair and mechanical account in order to make up the total project budget. If a person wanted to know how much was spent on the total project the project manager would have to add up the amounts from all of the various accounts, in addition when invoices from vendors were received they had to be coded to the appropriate project account. This resulted in coding errors and inefficiencies.

The result of the pre 2014-15 budgeting process was, project accounts with balances that may or not have a project associated with it, or projects where the work has been carried out and the account has not been closed, yet it has a balance remaining. These project balances are generally referred to as carry over balances. Over the last two years' staff have been working with the project managers to reduce the amount of carry over in the project accounts and to close project accounts that have a balance remaining. Any funds remaining in the account is returned to either the CAPPOOL (capital funded through operating) or the CRESSPOOL account (capital funded from debt).

The table below illustrates the total capital budget and the carry over available for the last five years. The work plan is the amount of work that would be scheduled in the year. The actual amount spent represents the work that is carried out in the fiscal year, either billed or accrued. (It should be noted that capital projections were initiated in 2013-14.)

Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17
Capital Budget	131.6 M	165.1 M	144.2 M	135.8 M	197.9 M
Carry Over *	233.7 M	201.0 M	222.6 M	216.6 M	204.3 M
Work Plan Available	$365.3 M	$366.0 M	$366.9 M	$352.4 M	$402.2 M
Actual	$164.3 M	$143.4 M	$150.2 M	$148.1 M	Q3 $129.1 M

* The carry over amount includes some project balances that are funded without a specific project work plan in that year. An example of this would be the Landfill Closure account, Industrial Park account, Road Corridor account and Parkland

Acquisitions. These are all accounts balances that are built up with the acknowledgement that there will be a requirement for funding in the future. There are also multi-year projects included in this amount. The total of both is in the range of $105 million.

As the carry over balances indicate, there is a significant amount of funding that is not being utilized. This is resulting in capital funds sitting idle rather than being used to invest in assets and service delivery. Part of the mandate of the Capital Working Group is to continue to close project accounts, especially those with a remaining balance, and to review the carry over amounts to determine which funds can be released to CAPPOOL/CRESSPOOL or in a reserve to allow for freed up capital funding to be used to fund other priorities. During the 2017-18 fiscal year the working group will be analyzing the project accounts to free up $9 million of new funding for the Street Recapitalization program in 2018-19.

In addition to analyzing all the project accounts on an ongoing basis, staff took a very conservative approach regarding assumptions around federal infrastructure cost sharing. As pointed out in the December 14, 2016 COW Report (http://www.halifax.ca/council/agendasc/documents/161214cow4.pdf) it is reasonable to assume that there will be increased federal cost sharing for projects that are on the capital plan. If this is the case any freed up municipal funding will be directed toward those areas that were reduced to balance the capital budget for fiscal 2018-19.

As directed by Council, staff did look at the options to increase the street recapitalization program funding by $9 million in fiscal 2017-18. The Capital Steering Committee looked at the projects under all assets classes and has identified projects accounts that could be closed or reduced for 2017-18 with funding redirected to Street Recapitalization. Attached to this report is a list of the projects that would be reduced in the 2017-18 capital budget, totaling $6.085 million. The amounts by asset class are as follows:

- Buildings - $1.437 M
- Fire Services - $114 K
- Halifax Transit - $300 K
- Roads and Active Transportation - $4.0 M
- Traffic Improvements - $234 K

Since the presentation of the 10 Year capital plan, staff in Parks and Recreation have received confirmation of cost sharing in the amount of $915 thousand from the Canada 150 Program. There is also $2 million in provincial funding for Halifax Transit that had not been allocated in the capital budget process. These two funding sources equal $2.915 million in federal/provincial sharing that can be used to reallocate municipal funds toward Street Recapitalization. Staff is recommending that the Street Recapitalization program budget be increased by $2.915 million to a gross budget amount of $23.915 million for 2017-18. With the projected carryover of $16.2 million TPW will be delivering a $40.1 million work plan.

In order to perform the necessary pre-tender engineering associated with the additional projects, TPW has identified the need to add two design engineer term positions at an approximate cost of $150,000 to be funded from the capital budget allocation. Additional construction supervision, survey capacity, materials testing, and quality inspection resources may also be needed to ensure appropriate quality assurance.

Additional design resources will allow TPW to respond to the needs of our transportation infrastructure as a whole, including the bridge program and AT implementation. These term positions allow us to proceed while a more detailed review of the group is being done to most effectively deliver the program. This capacity also allows the group to plan for a potential influx of federal cost sharing opportunities.

Staff did not look at increasing capital from operating or increasing the debt level to fund the $9 million increase, both of these options put pressure on the operating budget and would result in an increase to the tax rate.

FINANCIAL IMPLICATIONS

Funding the $9 million increase in the 2017-18 Street Recapitalization program from operating would result in a tax increase of $35 on the average tax bill.

Funding the proposed increase from a reallocation of capital project priorities would not have a direct financial impact. It could result in increased maintenance costs depending on which projects are deferred, the impact of the deferred projects is difficult to quantify at this time.

RISK CONSIDERATION

Directing funding from other planned projects toward the Street Recapitalization program for 2017-18 could result in deferred maintenance in other asset class areas. This could result in increased maintenance costs and a delay in the commencement of projects.

Risk of overfunding accounts and not closing idle accounts is a burden to taxpayers as the funds are used in the calculation of the tax rate.

COMMUNITY ENGAGEMENT

The public have an opportunity to speak at all Budget COW's.

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

1. Increase funding for Street Recapitalization program by $6.085 million in 2017-18 through reducing projects in various asset classes as per Attachment A. The financial impact of this is to defer or postpone projects that may result in further deferred maintenance. This is not recommended; the business unit is not confident they can deliver on a $30 million program in addition to the $16.2 million carry over.
2. Increase funding for the Street Recapitalization program by $6.085 million through a withdrawal from reserves. The financial impact of this is to reduce reserve accounts for projects that may not be able to be complete in the upcoming fiscal year. The ability to withdraw from reserves is a one-time option. Meaning that once the funds have been withdrawn they are not available for future use. This alternative is not recommended.
3. Fund the increase through the tax rate, a $9 million increase in the capital budget would result in an increase of $35 per tax bill, for the average household. This is not recommended, based on the preliminary fiscal framework approved by Regional Council on December 14, 2016 and existing operating budget pressures. The Business Unit has indicated despite best efforts staff does not have the capacity to complete the $16.2 million in carry over projects and deliver on a $30 million program in 2017-18.

ATTACHMENTS

Attachment A – Schedule of Project Reductions

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.php then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

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Original Signed

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PROPOSED FUNDING ADJUSTMENTS to Increase Street Recapitalization Program by $9.0 Million in 2017-18

Reduction in Active Projects		**Reduction**		**Implications**
Architecture-Exterior (Category 2)	CBX01274	50,000		Reduced funding for unplanned projects
Architecture-Interior (Category 5)	CBX01273	50,000		Reduced funding for unplanned projects
Corporate Accommodations - Alderney	CB000046	77,000		Some renovations will have to be deferred
HRM Depot Upgrades	CBX01170	300,000		Depot upgrades will be deferred to future years
Multi District Facilities (MDF)-Upgrades	CB000002	460,000		Capital improvements at MDF's will be deferred
Roof (Category 3)	CBX01272	500,000		Roof program will be scaled back
Building Total			**1,437,000**	
Fire Services Water Supply	CE010002	114,000		Funding is for dry hydrants, not as much demand as previous years
Bus Maintenance Equipment Replacement	CM000005	300,000		Cutting equipment replacement plan in half
Active Transportation - Strategic Projects	CTU00420	4,000,000		Projects will not be delivered, projects will be considered in future years
North Park Corridor Improvements	CT000001	234,000		Funds were for land acquisition, fund through road corridors reserve if needed
Project Reduction Total			**6,085,000**	
New Funding				
Provincial Transit Funding		2,000,000		
New ACOA Funding - Canada 150		915,000		
Total Federal/Provincial Cost Sharing			**2,915,000**	
Additional Funding Identified			**$ 9,000,000**	