

# Capital Budget

Winnipeg's yearly budget is divided between operating and capital. The operating side includes such expenses as salaries, services, and debt financing charges — in short, what it costs to run the city on a day-to-day basis, and includes an additional two years of projected spending. The capital budget, on the other hand, lays out the planned spending on the city's capital assets, and contains an additional five years of projected capital spending. This includes everything from buildings, to vehicles, to computers — things of a permanent or semi-permanent nature. For example, the costs associated with building a road would come out of the capital budget, while the snow clearing costs for that road would be paid for out of the operating budget. Similarly, transit workers' salaries come from the operating budget, while busses are paid for out of the capital budget. The primary importance, therefore, of the capital budget, is in planning for the upkeep and improvement of the city's infrastructure.

Funding for the capital budget can come from a number of sources. Money can be taken directly from the operating budget as “cash to capital.” Additionally, sources such as provincial and federal grants, taxes and levies, and re-

serve funds can contribute to the funding. Debt financing can also be used. In the 2017 budget, for example, all these sources were used to fund regional and local street renewal.

## The Infrastructure Deficit

In regards to Winnipeg's capital budget, the previous AMB (2014)<sup>1</sup> highlighted a significant infrastructure deficit, and predicted that deficit to only grow over a ten-year period. This was based mainly on a 2009 report<sup>2</sup> — the city administrative report on infrastructure deficit and possible funding options. This report pegged the deficit at \$740 million per year, (or \$7.4 billion over ten years) which is enormous, considering the capital budget that year was \$476 million.

The infrastructure deficit is defined as “the added investment in infrastructure assets that would be required to maintain them at appropriate service levels and in a good state of repair.”<sup>3</sup> The above city study showed that not only was the city not spending enough to keep Winnipeg's infrastructure at an appropriate service level, but the amount of money spent didn't even cover upkeep on existing infrastructure. The \$740 million was divided into two parts — a



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\$380 million deficit on existing infrastructure, and a \$360 million deficit on planned/new infrastructure. Of the \$380 million deficit on existing infrastructure, \$200 million was needed just to keep infrastructure at its current (2008) unacceptable condition — that is, just to keep things from getting worse — and the additional \$180 million was needed to bring the condition up to acceptable levels. According to the numbers, the state of Winnipeg's infrastructure in 2009 was crumbling, and since that report, there has been no significant increase in the amount of money spent on capital by the city.

The 2009 report provided more information about the forecasted \$380 million yearly deficit, or a \$3.8 billion deficit over ten years, on existing infrastructure (in 2009). It included some

\$20 million per year in operating expenses (\$200 million over ten years). Since this AMB report deals with the capital budget only, that \$200 million will be subtracted, leaving \$3.6 billion. This means that, ten years from the time the report was released, it was expected that \$3.6 billion above the projected capital budget would have needed to be spent in order to bring infrastructure conditions from the level they were at in 2008 to acceptable service levels.

What makes the picture worse is that the \$3.6 billion didn't include the need for new infrastructure. When that was factored in, \$3.45 billion in additional funding was needed over the same ten-year period (again, subtracting operating from \$3.6 billion). The total infrastructure deficit, therefore, with respect to the capital

budget, was expected to be roughly \$7 billion (in 2009 dollars) by 2019.

In 2009, capital spending from 2009–2018 was projected to be \$3.5 billion. Adding this amount to the \$7 billion shortfall means that a total of \$10.5 billion is required to bring infrastructure to an acceptable level of service. When the projected spending was revisited in the 2014 AMB, it was found that the combined actual and projected spending amount over the same time period had risen to \$4.4 billion. Though a \$900 million improvement on \$3.5 billion, this still left the city \$6.1 billion short of the projected amount required.

In 2010, the Infrastructure Funding Council was put in place by the Mayor and the Association of Manitoba Municipalities to address the infrastructure. The following year, it released a report identifying the deficit and provided a range of recommendations to reduce it, including a frontage levy and “smart debt” financing. Page 31 of the report also includes a table detailing additional revenue streams, and 10-year look at reducing the deficit.<sup>4</sup> Though significant, the combined proposed revenue measures don’t add up to the projected \$6.1 billion.

A significant step was taken by the city in 2015 in that an asset management policy was put in place. This policy is intended to dictate the way assets are utilized by the city in order to provide the best level of service (LOS). In regards to capital (which comprises much of the scope of the policy), this includes efficient and effective use of assets with respect to minimizing life-cycle costs while maximizing LOS, and maintaining up-to-date information on the state of city assets. In effect, a framework is being put in place to make consistent and efficient decisions with regard to capital investments by the city. It should be noted that, as of March 2018, the city is in the process of redefining acceptable levels of service as part of the asset management policy.

Notably, embedded in the process of creating asset management frameworks for different as-

sets, is a number of steps that should bring clarity to the infrastructure deficit. The most notable is the state of local infrastructure report. Each department is required to submit a report that includes inventory, valuation, and asset condition rating. Additionally, a financing section is included in the framework, including expenditures, revenue, and ways to address a funding gap if it exists. Lastly, the framework overall is meant to be forward-looking with respect to expected LOS. These frameworks should provide a level of transparency, positively influence capital asset management, and is a step in the right direction with regards to reducing the infrastructure deficit.

The previous AMB also suggested that the city increase its borrowing in order to address the deficit. At the time, the city’s debt limits restricted borrowing amounts. In 2015, the limits were increased. City debt limits on “tax-supported and other” expenditures (including municipal accommodations and fleet management) were increased to \$1500 per capita (up from \$1050). Debt limits on self-supporting utilities expenditures were also increased to \$1500 (up from \$950) with totals not exceeding \$2800 per capita. These increased limits allow for additional borrowing and thus additional capital funding.

In March of 2018, the city released an updated state of infrastructure report.<sup>5</sup> New information included a comparison of spending between the 2009 projected and actual amounts. The city claimed \$2.1 billion was spent above the 2009 projections. Also, a new infrastructure deficit was calculated based on funding needs for the next ten years. The amount arrived upon was \$6.9 billion, and showed improvement from the \$9.9 billion (in 2018 dollars, adjusted from \$7.0 billion). This is a full \$3.0 billion difference, and is only partly explained in the report by referencing the \$2.1 billion in additional spending. The deficit was again broken down into new and existing infrastructure categories, with a roughly \$4.0 billion deficit on existing infrastructure and

TABLE 1 Capital Budget Totals 2007–2017. Real \$ thousands

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
427,323	421,099	476,489	439,015	369,964	393,049	374,662	379,475	560,500	1,177,680	432,909

\$2.9 billion deficit on new. This is less balanced than the 2009 report, and suggests the city invested more in new infrastructure over the past ten years. This 2018 report gives positive news in that the infrastructure deficit has shrunk in real terms, yet the magnitude of the amount of work left to do is sobering.

Though recent measures have been noted, and are most likely positive, the financial picture has yet to move in the right direction. In 2009, the approved capital budget was \$476 million — significantly short of what was needed. However, from 2010 to 2014, the approved capital budgets were all even lower than in 2009. 2015 saw a slightly higher amount (in real terms) and 2016 contained a huge one-time increase, due to the North End Sewage Treatment Plant. It should be noted that the plant was not included in 2009 planning, and also that without the treatment plant, the 2016 and 2009 capital budgets are comparable in size. The 2017 capital budget also showed a lower level of spending than in 2009. The city reported a capital budget average of \$430 million per year from 2009–2017 in the 2018 infrastructure report (minus 2016), so in short, it appears that not enough has been done to increase the consistent level of capital spending year-to-year. Table 1 summarizes these changes.

The proposed capital budget for 2018 commits only \$357 million to capital projects. Of that amount, \$111 comes from (and goes to) self-supporting utilities — water and sewer. The remaining \$246 million is mostly funded through a combination of cash to capital (\$23 million), a frontage levy (\$10 million), reserve funds (\$62 million), and contributions from other levels of government (\$107 million). External debt, internal financing, and transfers from other capital accounts make up most of the remainder (\$72

million), and help offset the \$28 million in financing payments also listed in the budget.

Additionally, the six-year outlook contains no budget over \$400 million. In light of this AMB report, this seems to be woefully insufficient. The city has recognized the problem repeatedly, with major reports and continual discussion in yearly budgets, but has seemingly done little in yearly budgets to address it.

### Dealing with the Infrastructure Deficit

What needs to be put in place, then, to reduce the infrastructure deficit and bring Winnipeg’s infrastructure to an acceptable LOS? First off, any resources spent need to be directed properly, and in the area they can be most effective. The city is currently undertaking processes that contribute to that end. Secondly, the financial resources must be available to undertake this fairly massive project.

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The scope of the deficit, with respect to the budget, has already been discussed. However, it is beneficial to look at other cities’ capital spending in order to examine how Winnipeg compares. Obviously all cities are unique, and have unique challenges with respect to capital funding. However, where Winnipeg sits with respect to capital funding should give a sense both of how we stack up to other cities, and what is a reasonable amount to spend in eliminating the deficit.

Winnipeg’s 2018 Community Trends and Performance Report<sup>6</sup> highlighted that Winni-

peg's capital spending was below the average of eight major Canadian cities. The choice of comparable cities isn't explained, but Winnipeg sits 4th lowest in terms of capital spending per capita (at \$689), whereas the average is pegged at about \$779. If Winnipeg was to reach the average, making up the difference would account for an additional \$65 million per year in capital funding. In addition, Edmonton (comparable by population and population density) spends almost \$300 more per capita on capital expenditures. Indeed, if Winnipeg was able to increase spending by that amount, over \$200 million per year could be added to the capital budget.

There are three aspects to eliminating Winnipeg's infrastructure deficit. The first would be to halt the deterioration of our infrastructure. That is, we need to expend enough resources to maintain the current LOS of our infrastructure. Second, our infrastructure needs to be brought up to an acceptable LOS. Third, forward-looking planning needs to account for the continued maintenance and additional infrastructure that will be needed down the road.

### Recommendations

The recommendations of this AMB, therefore, divide the problem into those three smaller goals. First, the city needs to stop the deterioration of existing infrastructure. In practice, that means a maintenance schedule for city assets that addresses deterioration over a specific time period. In 2009, it was calculated that an additional \$200 million per year was needed for this purpose. Additionally, and hand in hand with that, is a plan to increase the level of service of assets to an acceptable level. For example, the recent infrastructure report awarded municipal properties the lowest grade of the report — a D — with almost 40% of those assets in very poor condition. A plan needs to be put in place not only to stop deterioration, but raise the conditions to an acceptable level. The capital spending increase

in our recreation section is an example of how we are dealing with asset deterioration.

Lastly, a comprehensive forward-looking plan needs to be in place to address future needs in a timely manner. On this front, the city is appearing to be proactive, with asset management plans well underway. The good news is that the city has reduced the infrastructure deficit by 30% since 2009, and is attempting to put a framework in place to facilitate addressing the remainder. However, finding \$6.9 billion in additional funding when the yearly budget hovers around \$430 million is obviously a monumental task. Put another way, an additional \$690 million per year over ten years, or \$345 million per year over twenty years, needs to be found. This will take a concerted effort by the municipal government and patience and support from the people of Winnipeg in order to move forward and further tackle the improvement of our city's infrastructure.

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Finally, other initiatives in this AMB would go a long way to stemming future infrastructure woes. The city must halt urban sprawl, road expansion and get people to use public transit and active transportation (see Transit and Active Transportation sections). Application of sustainable budgeting principals, as with our mobility pricing strategy and parking lot levy, helps recoup the cost of infrastructure maintenance and forces car owners to recognize their role in its deterioration.

### Proposed Level of Additional Spending on Capital Budget

As noted above, Edmonton — a city of similar size to Winnipeg — spends \$300 more per capita on capital projects. The AMB increases Winni-

peg's spending to a higher, more impactful level, which allows us to borrow \$690M more/year in sinking fund debentures. This will cost the city an additional \$37.6M/year in debt servicing.<sup>7</sup>

*New Expenditure:*

- Halt deterioration of existing infrastructure: \$690M

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<sup>1</sup> Canadian Centre for Policy Alternatives. (2014). "Taking Back the City. Alternative Municipal Budget Winnipeg 2014. Available at: <https://www.policyalternatives.ca/sites/default/files/uploads/publications/Manitoba%20Office/2014/04/Alt%20Municipal%20Budget%20web.pdf>

<sup>2</sup> <http://winnipeg.ca/finance/pdfs/ipd/InfrastructureDeficitAndFundingOptionsReportatCouncilJuly2209>

<sup>3</sup> Ibid. (p. 4).

<sup>4</sup> <http://winnipeg.ca/interhom/Mayor/pdfs/newRelationships.pdf>

<sup>5</sup> 2018 State of the infrastructure report (2018). Available at: <http://winnipeg.ca/infrastructure/pdfs/State-of-Infrastructure-Report-2018.pdf>

<sup>6</sup> [http://www.winnipeg.ca/cao/pdfs/CommunityTrendsandPerformanceReportVolume1\\_2018.pdf](http://www.winnipeg.ca/cao/pdfs/CommunityTrendsandPerformanceReportVolume1_2018.pdf)

<sup>7</sup> The AMB estimates a 3.6% interest rate to issue a sinking fund debenture, with a 30 year amortization period.