

The Capital Budget — Addressing the Infrastructure Deficit

The Challenge

Since the late 1990's, the City of Winnipeg has known that it is facing a mounting infrastructure deficit.³ In 1998, the Strategic Infrastructure Reinvestment Policy report pegged the annual and 10 year amounts at \$82 million and \$0.8 billion, respectively, in 1998 dollars. The New Deal Information report of 2003 pegged the deficit at \$188 million and \$1.8 billion, respectively, in 2003 dollars. An update of that report in 2009 put the deficit at \$250 million and \$2.5 billion, respectively in 2009 dollars. Converting all of these estimates to 2009 dollar amounts results in the following picture of the growth of the infrastructure deficit over that 11 year period.

The 2009 administrative report on funding options notes that just to maintain the existing infrastructure at its current (inadequate) level would require an additional \$2.1 billion to be spent over the next ten years. To bring the existing infrastructure up to adequate levels would require a further \$1.7 billion. In total \$3.8 billion in additional funding, over and above the existing capital budgets, would be required to bring the

City's existing infrastructure up to an adequate condition. For new infrastructure, an additional \$3.6 billion in investments would be required.

The 2009 administrative report also compares the projected 10 year spending contained in the 2009 capital budget with the total infrastructure deficit and notes that, at that level of capital spending, the infrastructure deficit will grow by \$3.9 billion just to maintain the infrastructure at current conditions.

Thus, the challenge facing the City is that the infrastructure deficit has grown substantially over the last 15 years and will continue to grow, given the projected levels of spending on infrastructure renewal and repair contained in the City's previous and current draft capital budgets.

The City's Response to the Infrastructure Deficit Since 2009

The 2009 capital budget committed \$3.5 billion to infrastructure repairs and additions over the 2009 to 2018 period which represents \$3.26 billion in 2009 dollars. By comparison, the 2014

³ "Infrastructure Deficit" is the *added* investment in infrastructure assets that are required to maintain them at appropriate service levels and in a good state of repair.

TABLE 10 Growth in Winnipeg’s Infrastructure Deficit — 1998 to 2009 — in 2009 \$

Year/Report	Annual Deficit	10 Year Amount
1998 SIPP	\$101.8 million	\$1.02 billion
2003 New Deal	\$210.3 million	\$2.10 billion
2009 Update of 2003 Report	\$250 million	\$2.50 billion
2009 – Existing	\$380 million	\$3.80 billion
2009 – Existing and New	\$740 million	\$7.4 billion

TABLE 11 Additional Infrastructure Funding Allowable Within the City’s Debt Limits

Type of Infrastructure	Current per capita Borrowing Limits	Projected 2018 per capita Borrowing Levels	Additional per capita Borrowing Room	Total Additional Borrowing Capacity (millions)
Tax and Other	\$1,050	\$962	\$88	\$66
Self-supporting Utilities	\$950	\$590	\$360	\$272

draft capital budget shows actual and projected infrastructure spending over the same time period of \$4.4 billion which represents \$4.09 billion in 2009 dollars. Thus, the City has allocated an *additional* \$838 million to spending on the infrastructure deficit which represents a reduction of only 21 per cent of the projected increase in the deficit and just 11 per cent of the total deficit. The City’s existing response is clearly inadequate.

One of the reasons why the City has limited its level of spending on capital budgets is that in 2011, it established maximum debt limits, as described in Table 11.

According to the City’s 2014 draft capital budget, by 2018 it will be spending about \$962 per capita on tax supported & other funded infrastructure and about \$590 on self-supporting utilities, leaving only \$88 per capita for additional tax supported & other funded infrastructure spending and \$360 per capita on self-supporting utilities. Given Winnipeg’s projected population of 755,000 by 2018, this will allow for only an additional \$66 million of tax supported funding and \$272 million on self-supporting utilities. In percentage terms, these additional spending amounts represent only 2 and 7 per cent of the \$3.9 billion growth in the infrastructure deficit over the 2009 to 2018 period.

The Alternative Budget Proposal for Additional Capital Spending

Why Capital Spending Should be Increased

There are a number of compelling reasons for the City to commit to additional capital spending to address its sizeable infrastructure deficit. First, construction inflation is running at between 4 and 5 per cent per year while borrowing costs are at historic low levels (3.8 per cent for sinking fund debentures + 1.7 per cent to grow the sinking fund). Second, every year the City delays repairing existing infrastructure, there is additional deterioration leading to greater repair costs. Thus, the net cost to the city of borrowing [borrowing costs — (construction inflation + additional deterioration costs)] is very low — likely in the order of 1 per cent. Third, the infrastructure deficit imposes costs on the citizens of Winnipeg in the form of greater delays in commuting, wear and tear on cars and trucks, slower response times due to traffic congestion, etc.

Two comparisons with the other major cities in Canada show that Winnipeg can increase these levels of borrowing and still remain a cost-competitive place to live and do business. The first comes from the City’s 2013 Adopted Capital Budget. Page 20 of that budget document compares the per capita level of capital spending of

TABLE 12 Property Taxes and Utility Charges for Single Detached Houses in 2010 for Selected Canadian Cities

City	Property Taxes ¹ : Municipal	Property Taxes: Total ²	Utility Charges ³	Total Property Utilities
Surrey	1129	1682	1604	3286
St. John's Nfld	1818	1422	1874	3296
Winnipeg	1363 (5)	2078 (3)	1413 (5)	3491
Montreal	2532	3083	579	3662
Victoria	1895	2696	1059	3755
Halifax	1556	2332	1616	3948
Calgary	1129	2114	1881	3995
Laval	2312	3161	896	4057
Fredericton	2790	2790	1404	4194
Vancouver	1678	2721	1530	4251
Regina	1301	2485	1852	4337
Edmonton	1523	2366	2088	4454
Saskatoon	1294	2684	1819	4503
Burnaby	1813	2868	1639	4507
Toronto	2129	2999	1959	4958
15 City Average	1751	2499	1548	4047

SOURCE: City of Edmonton, Planning and Development Department, Planning and Policy Services Branch.

¹ These are taxes for a sample house defined as a 25 to 30 year-old detached 3 bedroom bungalow with a main floor area of 1,200 square feet, finished full basement, double garage on a 6,000 square foot lot.

² The total includes school and other taxes, net of homeowner grants or credits.

³ The utilities include, power, water, sewer, garbage, land drainage.

Winnipeg with the seven other major cities in Canada, including Edmonton, Calgary, Saskatoon, Regina, Hamilton, Toronto and Ottawa. It shows that Winnipeg spends a total of \$525 per capita on capital works, compared to the average of \$1,078 of other seven cities. Thus, Winnipeg is spending considerably below the average of other cities.

The second comparison looks at the level of property taxes and utilities paid by households living in comparable houses in fifteen major cities in Canada. Table 12 presents that comparison.

This comparison shows that Winnipeg has the third lowest property taxes + utility charges of the fifteen major cities. Its municipal taxes are the fifth lowest as are its utility charges.

Proposed Level of Additional Spending on Capital Budgets

These comparisons allow for two benchmark levels of capital spending to consider when deciding on how to address the infrastructure deficit facing Winnipeg. The first would raise the per capita level of spending on capital budgets to the seven city average of \$1,078 which is an increase of \$553 per capita and \$400 million in total. Raising \$400 million via sinking fund debentures would cost the City \$28.6 million per year.⁴

The second would raise the City's municipal tax rate to the 15 city average of \$1,751, an increase of \$388 per property which represents an average tax rate increase of 18 per cent. With 218,973 taxable properties in the city, this would result in

⁴ This cost is based on annual interest rate of 6.65 per cent and a 40 year amortization period. The 6.65 per cent is the city's preferred amount and includes both paying the interest on the loan and replacement of the initial principal.

TABLE 13 Comparison of Total Actual and Projected Capital Budgets for 2010 to 2019 with Total Infrastructure Deficit in 2009 \$ by Infrastructure Deficit Item

Infrastructure Deficit Item	2009 Total Deficit — Existing & New	Total Capital Budgets — in 2009\$	% of Total Deficit
Bridges	\$419.00	\$386.86	92.3
Roads, Streets & Lanes (Reg.&Local)	\$3,247.00	\$835.45	25.7
Active Transportation	\$94.00	\$35.87	38.2
Transit	\$1,338.00	\$390.52	29.2
Parks	\$602.00	\$111.90	18.6
Riverbanks	\$100.00	\$12.82	12.8
Buildings			
Police	\$135.00	\$148.92	110.3
Fire & Paramedic	\$41.00	\$25.37	61.9
Libraries	\$27.00	\$13.74	50.9
Pools, Arenas, Parks, Rec.	\$419.00	\$105.38	25.2
Administration	\$87.00	\$38.70	44.5
Tax Supported Sub-Total	\$6,509.00	\$2,105.53	32.3
Water — Treatment & Distribution	\$173.00	\$264.53	152.9
Sewage — Collection	\$198.00	\$420.58	212.4
Sewage — Treatment	\$111.00	\$846.67	762.8
Land Drainage & Flood Control	\$368.00	\$74.09	20.1
Solid Waste	\$10.00	\$74.32	743.2
Utility Sub-Total	\$860.00	\$1,680.19	195.4
Total	\$7,369.00	\$3,785.72	51.4

an increase of \$85 million available for financing additional sinking fund debentures which would allow the City to borrow \$1.19 billion.

Given the magnitude of the infrastructure deficit, the Alternative Budget recommends that the City move to increase its capital spending over the next five years by a minimum of \$400 million through the issuing of sinking fund debentures. It further recommends that the City update its 2009 Infrastructure Deficit report by the end of 2014 to determine whether the magnitude of the deficit has grown and what additional funding is required to address it within a 10 year time period.

Proposed Focus of Additional Capital Spending

By way of identifying priority areas for additional capital spending, the Alternative Budget

compared the total level of infrastructure deficit outlined in the City's 2009 report with the total amount committed in the subsequent 10 years of capital budgets produced by the City, including the actuals for 2010 to 2014 and the projections up to 2019 contained in the 2014 draft Capital Budget. While the total capital budgets commit to spending on items that are not totally synonymous with those set out in the Infrastructure Deficit report, the comparison nonetheless offers an indication of which items in the infrastructure deficit list have been relatively poorly addressed by the subsequent capital budgets. Table 13 provides that comparison.

These results show that the areas least adequately addressed by the capital budgets are:

- Riverbanks (12.8per cent)
- Parks (18.6per cent)

- Land Drainage & Flood Control (20.1per cent)
- Pools, arenas, Parks and Rec. Buildings (25.2per cent)
- Roads, streets and lanes (25.7per cent)
- Transit (29.2per cent)
- Active Transportation (38.2per cent)

Accordingly, the Alternative Budget proposes that these areas be given higher priority in future capital budgets and for additional capital

spending. Our sections on recreation, transit, environmental initiatives and green spaces do just that, allowing us to take back control over our infrastructure.

Finally, the advantages to large expenditures on infrastructure and construction go beyond the direct improvements to our amenities. The multiplier for this type of investment is estimated to generate \$1.16 (Province of Manitoba Budget Speech, 2014) for every dollar spent as jobs are created and money is spent in the local economy.