ITAC

City of Edmonton's
Infrastructure Technical Advisory Committee

Four Pillars of Urban Sustainability Submission

Introduction

The sustainability of a city can, in part, be measured by the quality of its infrastructure. Physical assets – such as roads, sewer lines, transit, emergency response vehicles, swimming pools, parks, and information technology – enable the City to provide the services to our citizens that are fundamental to Edmonton's quality of life.

Much of Edmonton's infrastructure was built between 1950 and the late 1970s and is now approaching the point at which significant reinvestment is necessary to maintain service levels. Edmonton's challenges today are how best to ensure that these assets are maintained for the future and how to accommodate our City's significant growth pressures. To meet these challenges, Council needs to examine its policy and organizational framework to ensure that the Administration works in a coordinated fashion to establish a sustainable city.

In the 1990s, Edmonton realized that its capacity to fund infrastructure rehabilitation programs was shrinking relative to the increased need for renewal and upgrading. It did not, and would not under existing circumstances, have enough money to get the job done. Significant population growth and the resulting demand for new infrastructure made it even more difficult to maintain or upgrade older infrastructure. In short, the sustainability of our City was, and still is, threatened.

Responding to these pressures, Edmonton adopted an *Infrastructure Strategy* in 1998 to more effectively manage the City's $18 billion inventory of infrastructure assets. The *Infrastructure Strategy* is the foundation of a commitment to ensure infrastructure sustainability into the future. More effective management will strengthen the City's ability to:

- provide cost-effective municipal services;
- promote economic development;
- ensure citizen safety; and
- provide a high quality of life for Edmontonians.

The Infrastructure Technical Advisory Committee (ITAC), which is composed of representatives from key infrastructure stakeholders, has been supplying expert advice and counsel to the City since the fall of 2001 on the implementation of the *Infrastructure Strategy*. ITAC has been grappling with similar sustainability issues to those currently being reviewed through the Four Pillars process and is in a unique position to provide informed commentary on the issues under debate through the Four Pillars process.

Since ITAC's mandate is in the area of infrastructure, the group has chosen at this time to submit comments on two of the Four Pillars as they relate to infrastructure management: a new fiscal deal for cities and debt strategy.

ITAC believes that articulating a new policy direction should be Council's primary concern. The Four Pillars of Urban Sustainability initiative presents an opportunity to City Council and the senior Administration to examine key policy areas and to embrace new management tools and methodologies that will help to ensure the sustainability of our City and its infrastructure.

Decisions to finance capital projects must be made on a sound foundation of infrastructure management data. The *Infrastructure Strategy* requires annual reporting of the infrastructure inventory and investment needs and, consequently, provides much of the information required to support decision-making. The evaluative tools can substantiate infrastructure investment requirements both by identifying the state of the City's infrastructure assets and demonstrating the areas with the greatest need.

The City would also be well advised to adopt additional tools, such as Life Cycle Costing and Risk Assessment, to ensure that appropriate projects receive funding. Life Cycle Costing will enhance decision-making and financial planning by comparing the initial capital costs of alternatives – such as incandescent versus LED lighting – and the total cost of operating, maintaining, renewing and replacing an asset. Risk Assessment can be used to assess the scale and impact of infrastructure failure related to current funding shortfalls. This knowledge will support sound decision-making in the future.

Linking infrastructure and the Four Pillars initiative

The sustainability crisis and the infrastructure gap – the shortfall between the costs of infrastructure projects required to meet demands and the money available to pay for those projects – are largely financial. Edmonton has estimated its 'infrastructure gap' at $3.5 billion over the ten-year period concluding in 2013.

Degradation of existing municipal infrastructure assets and the inability to pay for new infrastructure to accommodate growth will have a profound effect on the City's service delivery capacity. Clearly the infrastructure gap can be used as an indicator of the sustainability of our city.

Edmonton is already recognized as a national leader in the field of infrastructure management. In recent years, the City has made several positive policy changes to deal with the infrastructure crisis – such as converting land drainage to a utility and amending the Debt Management Fiscal Policy. However, the City's ability to successfully address the growing infrastructure gap requires Council and Administration to continually develop new management tools and policies as part of an integrated planning and decision-making process employed throughout the administration.

Simply, the City must embrace innovation and display leadership to ensure Edmonton's sustainability. In this submission, the ITAC offers its comments and recommendations in support of a New Fiscal Deal for Cities and the use of Debt Financing. A separate submission will be made in support of Urban Forms at a later date.

New Fiscal Deal for Cities

To successfully negotiate a new deal, Edmonton and other cities must be able to quantify the extent of the problem and demonstrate that they are making good use of limited resources now. A key component of Edmonton's *Infrastructure Strategy* is to identify the level of funding required. In addition, the *Infrastructure Strategy* proposes innovative ways to maximize the benefit of available funding to ensure that:

- the City's existing infrastructure is in a good state of repair;
- rehabilitation and new development programs are adequately funded on an ongoing basis; and
- infrastructure programs are funded as efficiently and effectively as possible.

Edmonton, perhaps more than any other Canadian municipality, is in a defensible position to talk about its infrastructure and financial pressures because it has quantified its infrastructure gap and begun to develop new management methodologies.

Prudent fiscal management at the municipal level has also resulted in some new funding sources. In 2003, City Council converted land drainage to a utility, which makes the service self-financing because all costs associated with the service are recovered directly from the users of the service. Renewal, upgrading and expansion costs are all amortized into the rate payment. The City no longer needs to incorporate drainage services in its property tax-supported capital budget projections. The City should evaluate the applicability of this approach to the management of other infrastructure assets.

Innovations like this, however, are not enough since the infrastructure gap is so large. Municipalities need a new fiscal deal with both the federal and provincial governments.

Before moving to specifics, ITAC would like to observe that Edmonton cannot carry this argument alone. Edmonton should work with other Alberta cities when addressing the provincial government; and with other major Canadian cities when addressing the federal government.

Recommendations

Edmonton should work with Calgary and the larger Alberta municipalities to define more clearly provincial and municipal responsibilities and to determine sustainable levels and sources of funding. The Province's fiscal restraint agenda has resulted in the 'downloading' of many services – and significant costs – to the City. Ideas for consideration include the following.

1. Lobby for changes to provincial legislation that enable municipalities to access new sources of revenue. Presently, municipalities have one primary revenue tool, property taxation, and it is wholly inadequate. Property taxes are regressive, they do not reflect economic conditions, and they penalize citizens on fixed incomes. Give municipalities 'local control' over revenue generated locally.
2. Expand user fees or other 'consumption taxes' that more accurately reflect the use of services and economic conditions, in contrast to property taxes. For example, the provincial government currently distributes a proportionate share of its gasoline taxes, a measure that reflects both consumption and general economic activity. This program of gas tax sharing should be guaranteed. Adoption of more user fees would necessitate a real discussion of when it is appropriate to charge fees on a consumption basis.
3. Work with the federal and provincial governments to reduce the number of conditions tied to capital grants. While linking a proportionate share of gasoline taxes to transportation projects is reasonable, federal and provincial priorities are not always congruent with municipal priorities, and conditional grants can impose priorities that defeat long-term planning.

4. Ensure that funding requirements related to operations and maintenance are considered at the same time that capital investment decisions are made, *i.e.*, Life Cycle Costing, to ensure that an asset can be adequately maintained over its lifespan. An infrastructure asset that cannot be adequately maintained is not ‘sustainable.’
5. Obtain compensation from the Province for regulatory changes that impose significant new infrastructure development or spending. For example, changes to Provincial effluent regulations led to significant capital spending and increased operating costs that were borne exclusively by the City. As a result, other urgent capital priorities were deferred.
6. Provide incentives for construction that reduces strain on infrastructure assets, such as the LEED (Leadership in Energy & Environmental Design) Green Building Rating System. Incentives might include tax relief, service cost reductions, *etc*. For more information about LEED, visit the U.S. Green Building Council website at www.usgbc.org/AboutUs/mission_facts.asp.
7. The Province should vacate local education property tax. The tax is no longer controlled locally and it infringes on the ability of municipalities to raise funds from their only significant revenue source. Collecting this tax costs Edmonton $3.1 million annually but the City derives no benefit and is not compensated. Instead, citizens confuse an increase in education taxes with an increase in municipal taxes.
8. The Province and municipalities must define roles and responsibilities and fund cities accordingly. This effort should be pressed through the Minister of Municipal Affair’s Provincial/Municipal Council on Roles, Responsibilities and Resources in the 21st Century. The City should vacate those areas not within its jurisdiction unless adequate funding is provided by the Province.
9. Develop a more equitable funding formula for municipalities.

Although much of the current difficulty is rooted in provincial legislation, especially the *Municipal Government Act* a similar clarification of roles and responsibilities in discussion with the federal government would be beneficial.

Desired outcomes

1. A clearer definition of responsibilities between the various levels of government and a commitment from all orders of government to discharge authority and generate revenue accordingly. This must be conveyed to citizens.
2. Alignment of responsibility for revenue collection with responsibility for service delivery.
3. Expansion of the sources of revenue available to municipalities.
4. Edmonton affirms its role as a municipal leader with respect to adopting new tools and strategies that support urban sustainability.

Debt Financing

ITAC would like to point out to City Council that it is illusory to achieve freedom from fiscal debt if one of the consequences is the rapid increase of unfunded ‘infrastructure’ debt. A deficit remains a deficit, whether it is a monetary or an infrastructure deficit. As interest accumulates on a monetary debt, so too do capital costs increase for ‘infrastructure’ debt – it becomes more expensive to renew or upgrade existing infrastructure assets as they deteriorate or catch up on new infrastructure projects that have been deferred.

ITAC applauds the City’s sensible use of modest debt to address the most pressing infrastructure issues facing our community. Assuming up to $50 million of tax-supported debt each year for five years

beginning in 2003 to pay for critical infrastructure projects that would otherwise be unfunded appears to be a wise decision.

At the same time that it advances new management techniques and implements new investment decision-making tools, the City's use of debt needs to stay 'smart' by adhering to stringent parameters. ITAC defines 'Smart Debt' as follows:

- the asset has an identifiable return to the City;
- it is more efficient to make the investment *now*, rather than later;
- the investment and debt incurred must be affordable; and
- it must have strategic value.

Based on this working definition of Smart Debt, ITAC offers several recommendations concerning debt financing of capital projects.

Recommendations

1. Debt should only be used where those who must repay the debt receive the benefit. That is, a debt-funded project should have long-term benefits to Edmontonians today and tomorrow; assuming debt for a project or initiative with a short lifespan is inappropriate.
2. Debt must not be used to cover operational shortfalls or to deliver services. Its use should be restricted to large-scale capital projects only that would otherwise remain unfunded or underfunded.
3. The City should consider incorporating Life Cycle Costing and Risk Assessment methodologies as part of the decision-making process to select infrastructure projects that are debt financed.
4. ITAC strongly recommends debt financing be applied to renewal, upgrading and expansion projects – and that the City seek an appropriate balance of rehabilitation and growth projects. The tendency to apply debt financing only to new growth projects should be resisted.
5. Debt levels incurred by the City should be sustainable, *i.e.*, within the City's fiscal capability. The current limit set is $50 million annually over five years for a total of $250 million by 2007. Edmonton has the capacity to borrow substantially more. This may be particularly appropriate now, when interest rates are low. Debt will help the City to meet growth pressures until new revenue tools are in place to address demand.
6. The time frame for decisions concerning debt financing should be expanded to cover a genuinely strategic time frame. This means not making decisions based on a three to five year planning horizon but at 20-year windows.
7. The debt incurred should be paid back within the lifespan of the asset.
8. ITAC recommends that the City explore other options besides debt financing. In addition to ensuring the most cost-effective management of existing infrastructure assets, the City could evaluate the appropriateness and applicability of other alternatives, such as creating utilities, Public-Private-Partnerships (P3s), and design-build-own-maintain (DBOM) contracting. These options should be entertained only with careful and objective analysis.

Desired outcomes

1. Develop a priority setting process for capital projects and debt financing that supports urban sustainability and that favours renewal and upgrading over expansion *i.e.*, rehabilitation over growth.
2. Use 'Smart Debt' and do not be constrained by fear of deficit financing.
3. Explore creative financing options to support the acquisition of necessary infrastructure.

Conclusion

Infrastructure assets contribute to our quality of life. However, Edmonton's capacity to fund infrastructure programs is shrinking relative to the increasing need for renewal, upgrading and expansion. Under existing circumstances, the City does not have enough money to get the job done. Edmonton's sustainability rests on our ability to build and maintain our infrastructure assets with an eye to the future.

Difficult decisions remain, particularly with respect to securing adequate funding. Edmonton must continue to negotiate with other orders of government and other municipalities to establish a more equitable position and to explore alternatives. The City must also explore new funding approaches, such as debt financing, with the goal of effectively managing growing infrastructure requirements and decreasing the infrastructure gap.

When the City implemented the *Infrastructure Strategy* in 1998, it took a significant step forward to address our community's long-term sustainability. The Four Pillars of Urban Sustainability is another exercise with a similar goal. The key for Council is to ensure that it provides leadership and links key corporate policies with the management tools already developed by the Administration.