

What is a capital budget?

The capital budget indicates the funds needed for first year and multi-year projects of the 10 year capital plan. It is how we pay for projects such as reconstructing streets; building and improving public facilities such as recreation facilities, community centres, parks and firehalls; dealing with growth pressures such as new streets; and new initiatives. These costs are similar to budgeting for an addition to your home this year.

What is a capital plan?

The capital plan is our investment plan for the next 10 years, with inclusion of items expected to be required over that time. This is similar to your plan to purchase a new vehicle in two years or start home renovations in three years. Long term planning allows The City to tailor projects to the changing needs of the community and manage finances.

What is an operating budget?

The annual operating budget shows the day-to-day costs of delivering programs and services. The operating budget maintains the services, programs and infrastructure that support the nearly 100,000 citizens within our city.

2019 Capital Budget & 2020 - 2028 Capital Plan Maintaining Vision, Managing Expectations

The City of Red Deer's 2019 Capital Budget and 2020-2028 Capital Plan will focus on sustainability, maintaining our long-term vision for our community and the needs and expectations of our residents. Our focus is and continues to be, providing quality services and facilities for Red Deerians.

The City recognizes the importance of sustainability, and our citizen's desire for fair and reasonable tax rates to support the city. With the slower than anticipated economic recovery, we have moved several projects further out in the capital plan.

In February 2019, Red Deer is hosting the 2019 Canada Winter Games. Preparing for the games has required the construction of new facilities and several facility upgrades and enhancements, which were previously approved and completed in 2018.

Some of Red Deer's newest amenities, including Servus Arena, Gary W. Harris Canada Games Centre and Setters Place at Great Chief Park will not only be host to the games in 2019 but will continue to serve our community for years to come.

Moving some of our capital projects out in the capital plan allows us to focus on items previously approved, reducing our 2019 Capital Budget to \$115.76 million, while maintaining the amenities and infrastructure we have in place.

In the 2018 Ipsos Citizen Satisfaction Survey, the top three priorities identified were crime, transportation, and municipal government services. These priorities are all addressed in the capital budget and the longer-term capital plan.

The 2015-2018 Strategic Plan, set by Red Deer City Council, is citizen focused and grounded in the pillars of service to promote an accessible and welcoming community. The Strategic Plan has three key theme areas, as outlined below. To work towards the themes in the Strategic Plan, The City continues to invest in our community as the projects are prioritized in the capital plan.

- **Dialogue:** engaging our community and enhancing our relationships.
- **Community Amenities:** planning great spaces and places for community living.
- **Financial Leadership:** Creating a sustainable financial foundation.

Strategic Plan

City Council is currently developing its Strategic Plan for 2019 to 2022.

Vision:

- Innovative thinking
- Inspired results
- Vibrant community

Mission:

The City of Red Deer works together to provide leadership and sustainable municipal services for our community.

City Council is currently developing its Strategic Plan for 2019 to 2022.

City Council capital budget approval process:

The 2020 - 2028 Capital Plan and 2019 Capital Budget will be presented to City Council starting at **9 a.m. on November 19, 2018** in Council Chambers, Red Deer City Hall. Proceedings will continue on November 20 if needed.

Capital plan overview

The 2020-2028 Capital Plan is a plan for investment in long term assets that will be approved in principle.

One of The City's responsibilities is to ensure city infrastructure meets the needs of the community and is well maintained. Capital expenditures are made to fund new infrastructure or improve existing infrastructure, and to deal with assets generally valued over \$10,000 and having a lifespan greater than one year, such as major equipment, buildings, community facilities, and roads. Anticipated spending in these areas form The City's capital plan funding requirements.

The City's 10 year capital budgeting process is an important step in keeping us on track towards achieving our vision. It allows The City to tailor projects to the changing needs of the community and manage finances.

Decisions for the 2020 – 2028 Capital Plan

The capital plan for 2020-2028 totals \$1.4 billion, based on current projections. There are several key drivers of the capital plan, some of which include community safety, transportation upgrades and the development and redevelopment of community amenities.

One significant challenge is developing new infrastructure to meet community needs and expectations while maintaining an existing infrastructure continuously stressed by high levels of increased use. Wear and tear on facilities, streets and bridges, changing standards and an evolving community vision have led to the need for new development and redevelopment of a number of facilities over the past few years.

Another challenge The City faces is a slower than anticipated economic recovery, and reduced growth in Alberta and our city as well as an anticipated reduction in provincial grants.

Balancing the needs of Red Deer with the current economic reality is a priority when planning a prosperous future for our community.

Council will only debate and approve expenditures scheduled for 2019, and multi-year projects planned to start in 2020 and beyond.

Projects in the 2020-2028 Capital Plan are approved in principle by Council allowing the flexibility to adjust based on community need and funding sources. The capital plan projections are intended as estimated placeholders and planning tools which show an order of magnitude of future needs.

A project's inclusion in the capital plan does not mean that it is going ahead. It simply means that The City is considering it, planning for it, and considering financing options for it.

Capital budget overview

The chart below represents a guide for future investment.



The base layer, Infrastructure Replacement / Rehabilitation Projects, are the foundational projects that bring current infrastructure back to good condition, restore to a former capacity, put something new in place of something that is worn out or no longer usable, or an improvement that adds value. This layer can be considered the priority projects. In the 2019 Capital Budget, Infrastructure projects account for 78.7% of the budget. Examples of projects being proposed include:

- Wastewater Treatment Plant phosphorus recovery and biosolids facility
- Water Utility Infrastructure, residuals management facility
- Pavement rehabilitation (crown paving)

The next layer up, Current Growth, signifies all projects excluding community amenities that are within the current growth area. Examples of projects being proposed in the 2019 Capital Budget include:

- Highway 11A Upgrades: Northland Drive

The layer second from the top, Future Growth, includes all projects excluding community amenities that are within the future growth area. Due to slower growth, this layer is lean for 2018. Examples of projects being proposed in the 2019 Capital Budget include:

- Red Deer Regional Airport maintenance

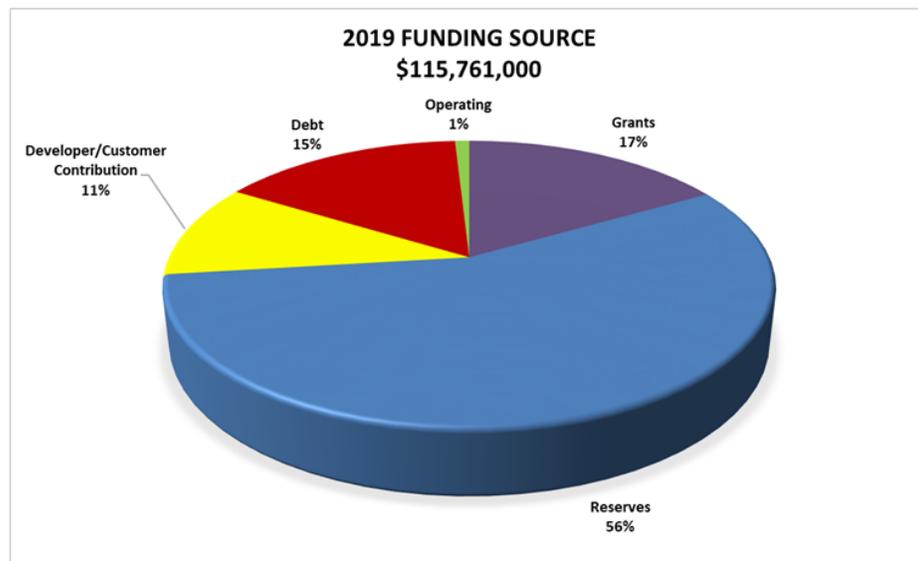
The top layer, Amenities, incorporate projects that consist of major renovations or new construction of recreation, cultural or public space structures. Examples of projects being proposed in the 2019 Capital Budget include:

- G.H. Dawe Community Centre enhancements
- West Park School sports fields upgrades

The 2019 Capital Budget indicates the funds needed for the first year or multi-year projects of the capital plan. During budget discussions this year, Council will consider both current year and multi-year capital projects starting in 2019 and beyond totaling \$115,761,000, which is \$774,000 lower than projected in 2018.

The capital budget is how we pay for major projects, such as reconstructing streets; building and improving public facilities like recreation facilities, community centres and parks; new streets; and new initiatives.

**Capital budget funding sources:
2019 Funding Sources - \$115.76 million**



Funding for capital projects comes from many sources including grants, customer contributions, reserves and debt. In the 2019 Capital Budget, funding for projects includes:

Developer and Customer contributions

The capital plan includes projects supported through fees. These projects do not have an impact on taxation.

Continued growth creates new demands leaving The City to fund some new capital costs. These costs include upgrades and expansions, and the additional tax revenue generated from the increased number of properties is not sufficient to cover these additional costs, leaving The City to find other revenue sources to fund infrastructure projects.

Offsite levies

The City takes a role in front ending initial development costs for new neighbourhoods to finance water, sewers, storm sewers and roads required for growth and development. When a slowing economy leaves us with little or no development in serviced areas, there has been some delay in recovering these costs, but they eventually are recovered as offsite levies by The City from developers who build the costs into lot prices.

Reserves

Reserves are The City's savings accounts. A significant portion of the funding sources in the capital plan include a mixture of fee-supported and tax-supported resources. The City uses reserves to fund some capital projects which includes utility-supported reserves specifically allocated for water, wastewater, solid waste and electricity infrastructure; the Capital Project Reserve, which in recent years, has been steadily declining due to the number of expenditures exceeding the funds available; and, other capital reserves which are used for special purposes to repair and/or replace some of The City's infrastructure.

Grants

Grants received from the federal and provincial governments are neither municipal tax-supported nor fee-supported. Only revenue sources confirmed to date have been included in the capital budget.

One of the major provincial grants The City of Red Deer receives is the Municipal Sustainability Initiative (MSI) grant. MSI is calculated using a formula and is given to municipalities on an annual basis. Based on the Provincial Budget, this amount will be less than what we received in 2018.

Debt

The City's use of the Capital Projects Reserve over the years has allowed us to delay borrowing. This delay has put us in a sound financial position to manage future debt. However, the magnitude of capital work required and a lack of funds in the Capital Projects Reserve have led The City to use debt financing as a tool to handle Red Deer's significant capital needs.

*Debt limit:
The Provincial Government sets this rate at one and a half times revenue.*

*Debt-servicing limit:
This is the limit the Province feels The City can afford to pay in interest and principal costs based on revenue.*

How do we spend capital funds?

The City has a long list of projects for maintaining, upgrading and adding to our facilities and services. Developing the capital plan includes a long and detailed process requiring difficult choices between what we need to do and what we can afford.

Debt financing

Debt is one financial tool cities use to finance large capital expenditures. This option allows The City to deal with growth pressures and some of the accumulation of aging infrastructure rehabilitation work.

Debt financing is a responsible method of funding projects

The City of Red Deer, like many other municipalities, has identified debt financing as a viable and financially responsible method of funding projects. Unlike personal or business loans, interest rates for The City are fixed for the full life of the loan.

Delaying projects could cost The City more

Investments needed to support capital development are significant, and failing to do so at critical times can be more costly to The City in the long run. Deferring work can result in deteriorating service levels if facilities and other infrastructure are not maintained. Putting off maintenance also increases overall project costs as it often leads to more significant work in the future and rising costs due to inflation. The City carefully analyzes each project and determines whether or not it is feasible to defer or delay.

The City's level of debt is controlled by the provincial government

The provincial government limits the amount of debt for municipalities. Our estimated allowable debt limit for 2019 is approximately \$538.8 million. At the end of 2019, we project The City's overall debt to be \$303.2 million, which is 56 per cent of our debt limit.

Key decisions for City Council

Because The City's capital plan includes approximately \$1.5 billion in projects between 2020 and 2028, it's important for Council to balance Red Deer's immediate capital projects with future community needs all while keeping the economy and the interests of Red Deer residents in mind.

As well, when considering whether or not to move forward with a particular capital project, Council will need to not only consider the expected project cost, but also the cost of deferral. Alternatives will need to be implemented to maintain the usefulness and value of our capital assets.

Decisions made this year will have lasting impacts on The City's future capacity to finance capital projects. Council needs to consider the total capital plan rather than just the 2019 Capital Budget to help ensure debt and other capital financing is available in the future, and that the operating budget is not unduly impacted by debt-servicing and increased operating costs of new facilities.

With increasing challenge, slower growth, and lower revenue, Red Deer City Council has the complex role of striking a balance between meeting our immediate needs and putting the resources in place to achieve the community's vision.

Budget development process

The capital plan development is comprehensive and extensive

Each year, City departments analyze their specific capital requirements for the next 10 years. Department managers then submit 10 year capital plans to be consolidated into one capital plan.

The City plans years ahead to determine its capital needs. Studies and community consultation, such as the Budget Open House, the budget online survey, Ipsos Citizen Satisfaction Survey, Community Amenities Project, Community Culture Vision and the Greater Downtown Action Plan help to determine community needs and wants.

According to the 2018 Citizen Satisfaction Survey, a statistically valid sample, respondents were asked what their priorities were in terms of infrastructure needs. The top three priorities among respondents were:

- Roads at 82 per cent
- Water treatment facilities at 65 per cent
- Recreation facilities at 54 per cent

All of these priorities are being captured in the recommended 2019 Capital Budget, the 2020-2028 Capital Plan or are previously approved in prior budgets and work is currently being done or is starting in 2019.

Respondents were also asked about their overall satisfaction with City services. The results were that 92 per cent of respondents were very satisfied or somewhat satisfied.

In terms of value for taxes, 85 per cent said they get very good value or fairly good value for their tax dollar. When asked about balancing taxes and service delivery levels, the results were:

- 24 per cent said to increase taxes to maintain services at current level
- 27 per cent said to increase taxes to enhance or expand services
- 25 per cent said to cut services to maintain current tax level
- 15 per cent said to cut services to reduce taxes

On an annual basis, The City Manager, Enterprise Business Planning team and departments meet to review department budget requirements, ongoing service levels and new initiatives including capital projects. From these initial meetings, a draft capital and operating plan are discussed by the Corporate Leadership Team. The final plan reflects the recommendations of the City Manager. The capital and operations plans are developed considering overall sustainability, risk mitigation and alignment with overall strategy.

As soon as the operating and capital process is completed, the process repeats and departments begin work on the next year's capital plan. Continually looking ten years ahead helps ensure The City has time to consider its options.