MANITOBA HEAVY CONSTRUCTION ASSOCIATION

Groundbreaking

March 12, 2015

To: Mayor Brian Bowman, Chair and Members of Executive Policy Committee (EPC); Councillor Janice Lukes, Chair and Members of Infrastructure Renewal & Public Works (IRPW); Members of Winnipeg's City Council; and Civic Administration

From: Chris Lorenc, B.A., LL.B., President, Manitoba Heavy Construction Association (MHCA)

Subject: **2015 City Of Winnipeg Operating Budget; 2015 Capital Budget And 5-Year Forecast**

The Manitoba Heavy Construction Association (MHCA) founded in 1943, remains driven by its Vision Statement which challenges the industry association to advocate for sustained and strategic investments in infrastructure to grow the economy, administered in a manner ultimately consistent with the public's best interests.

In that context we are pleased to offer MHCA perspectives related to both the 2015 City of Winnipeg Operating Budget and the 2015 Capital Budget and 5-Year Forecast.

We appreciate the tangible efforts in striking both budgets by the Mayor, EPC, Councillors and Administration within the roughly four or so months since the October 2014 civic election. It was no small feat given a newly elected Mayor and the historically high electoral turnover.

We regard these budgets both as transitional given the short time frame noted above, as well as setting some important trends and notices for future deliberation.

We will offer the comments as between the two budgets.

2015 CITY OF WINNIPEG OPERATING BUDGET

We understand that the 2015 Operating Budget is in many respects a transitional budget given the time frame available within which to appreciate the real budget predicaments and shape its direction since October 2014. The real test of this Council and the directions it sets, will be better and more realistically determined in the 2016 and forward budgets.

We appreciate the reliance by the City of Winnipeg on realty taxes, levies, licenses, user fees and frontage levies to shape this budget. Reliance on these revenue streams in the short term, reflects the limited access to revenues available to Winnipeg with which it has to fund the delivery of its core services - both operating and capital.

The merits of the balance struck as between and within those sources, will be both a political and ideological debate, which we acknowledge.

Of particular note when this budget was introduced, were the comments of Finance Chair Councillor Marty Morantz who referred on more than one occasion to 'structural deficits' facing the city going forward, given the deficit projections for 2016 and 2017.

The reality facing Winnipeg - like many other major urban centres in Canada - is that municipal governments have restricted access to revenue streams with which to fund their core services - operating and capital. Present municipal revenue streams were designed at the turn of the century, over 100 years ago. Their capacity to fund is outstripped by the substantive growth of civic government responsibility compounded by decades of senior - provincial and federal - government off-loading onto the responsibility of municipal government.

In our view, the above tightly described context should persuade the Mayor and Council to pursue the following strategies:

1. Continue searching for efficiencies and innovation in service delivery, process, systems and structure. The Mayor made such a commitment during the mayoralty campaign and we support those objectives.

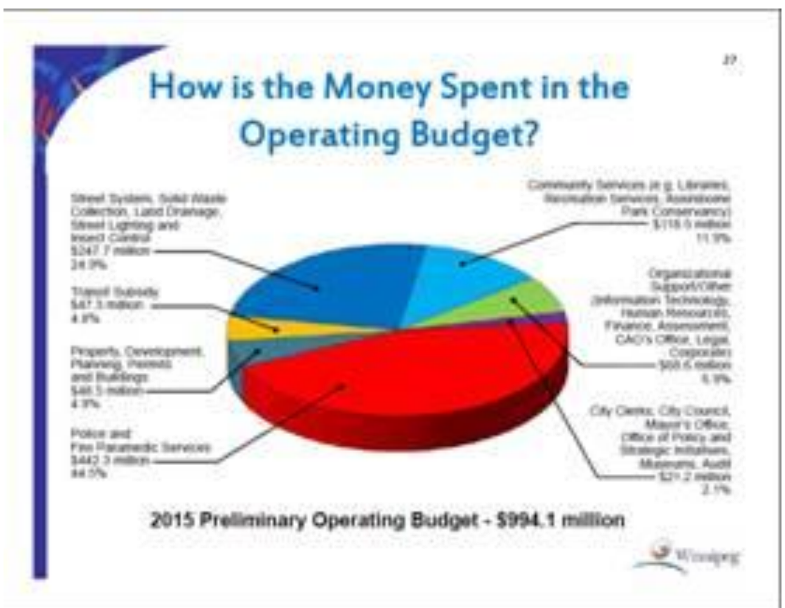
2. The budget process and thinking at City Hall - apart from the improved collaboration which accompanied its development this year - should undergo a further paradigm shift.

We urge that you reframe budget thinking at city hall from "*how do I raise money*," to "*how do I harness*" the operating and capital budgets to leverage investment and economic growth.

Economic growth should be at the top of '*investment'* thinking at City Hall. It is a growing economy which expands the tax base allowing increased revenues with which to fund programs and reduce pressure upon the primary area of civic revenues, namely realty taxes.

3. Recognize that without sustained economic growth generating revenues to government, proper funding of our core services -- our quality of life -- is impossible.

To illustrate our point, the 2015 Preliminary Operating Budget total is $994.1 million. Of that amount the allocation to Police and Fire Paramedic Services is $442.3 million or 44.5% of its total. A further $118.5 million or 11.9% is allocated to fund Community Services including libraries, recreation services, Assiniboine Park Conservancy. These two areas alone consume a full 56.4% of the total annual Operating Budget.



A failing, static or shrinking economy could not sustain those levels of allocation - which will only grow as we move forward - which would then directly impact the expectation Winnipeggers have for public safety and emergency services, and community services.

Given the direct impact and importance of economic growth and its established link to quality of life programs, the Mayor and Council should champion establishing a *Chief Economic Development Officer* (CEDO) whose administrative ranking would be on par with the Chief Administrative Officer (CAO) and Chief Financial Officer (CFO).

The Chief Economic Development Officer (CEDO) role should be to:

- Report to the Mayor and Executive Policy Committee (EPC) on all matters associated with strategic economic growth and expanding Winnipeg's global trade role, ensuring a recognized competitive, streamlined reputation in an increasingly global environment;

- Serve as lead liaison to EPC which should be charged with the oversight of economic growth & trade development strategies;
- Supporting the Mayor, serve as intergovernmental liaison on all matters related to economic growth;
- Work with business and related groups to target economic development, trade and related growth opportunities; and
- Advise prioritizing infrastructure investment strategies to enable sustained economic & trade related growth.

Economic growth must be a top priority agenda at City Hall not just to enable a vibrant and healthy city, but to deflect realty tax increase pressures.

4. Councillor Morantz and others are correct in observing that a *'structural deficit'* faces this city, as it does others in this country, and this inequity must be addressed.

We believe that Manitoba's municipalities even with found efficiencies do not have the revenue streams with which to address their challenges including the broad Manitoba $14 billion municipal infrastructure deficit.

Accordingly we call upon the Mayor and Council to champion pressing the Premier to negotiate a comprehensive '*New Fiscal Deal'* for municipalities with which to address current and future municipal government challenges - operating and capital - whose current and emerging burden and costs far outstrip their capacity to fund.

It should be clear that such a New Fiscal Deal is in our collective economic and social well being interests.

We are prepared to assist addressing each of the above proposed strategic directions.

2015 CAPITAL BUDGET AND 5-YEAR FORECAST

We applaud the Mayor and EPC for proposing an incremental, affordable and sustainable increased investment in infrastructure. This reflects not only a visible need - our streets as an example which are suffering from decades of neglect - but as well respects an overwhelming public concern demonstrated in both pre and post election periods.

Heading into last fall's civic election, the public made it clear that infrastructure was its top priority.

Now almost four months after municipal elections a new poll conducted by Probe Research shows that concern about the condition of our core municipal infrastructure continues to be the public's #1 priority.

Virtually all Winnipeg adults (96 per cent) say it is important to continue investing in core infrastructure including streets, sewers and water mains. Three-quarters of Winnipeg adults (74 per cent) think that investing in core infrastructure should be a “high priority”, bolstered by 22 per cent that indicate it is a “medium priority” according to Probe Research.

Investment

We deliberately choose to use the word *'investment'* associated with infrastructure.

Infrastructure - whether new or existing - is an <u>*investment*</u> in our short and long term economic and social well-being. In the context of public policy discussion it should <u>*BE*</u> regarded as an *investment*, not just spending.

Further, *investment* - as distinct from spending - suggests a strategy, a plan, discipline to purpose with pre-designed and projected objectives and outcomes - a far more cerebral and productive return on the investment process of public or private capital allocation, than simply spending.

Investment must become the associated descriptive word, part of the message we all champion when speaking to, promoting, or advocating the manner in which all governments, the private sector, the public and media, speak about infrastructure.

Decisions we make on infrastructure investment *will* have long-term implications not just for years, but for generations to come. Examples of such investment decisions include: the CP Main Line, the Shoal Lake Aqueduct, the Trans Canada Highway, the Manitoba Floodway, the St. Lawrence Seaway, and Assiniboine Park. Future decisions, must therefore be undertaken in a coordinated, sustained and strategic fashion focusing on our city's best long term economic and social well-being interests for we exist, invest and utilize dividends as a community and nation – over the long term.

The right decisions will bring about increased private sector investment, increased opportunity and prosperity and capacity to fund the quality of life programs which improve our standard of living.

Failure to act, or to kick the can down the road - a far easier decision - will only increase our future needs and increase the City' "infrastructure investment deficit."

To illustrate, the city's infrastructure investment deficit was estimated in the May 2011 Infrastructure Funding Council (IFC) Report to be in the vicinity of $8 billion or roughly $800 million annually over a ten year period.

Contrast that staggering number to the year 2000, when Winnipeg's annual infrastructure investment deficit as identified in the Strategic Infrastructure Reinvestment Policy (SIRP) Report hovered in the vicinity of $84 million annually or slightly less than a projected $1 billion over a then ten year period.

Because of decades of neglect, Winnipeg's infrastructure investment deficit climbed from $80 million annually in 2000, to $800 million annually in 2011 - *a 1000% increase in 11 years*!

Continuation of the 1% plus 1% dedication to regional and residential streets is therefore at minimum - at minimum - an appropriate first step.

Infrastructure Investment & the Economy - Our Economic & Social Well-Being Program
It is well established and acknowledged that sustained and strategic investment in public and private infrastructure fuels economic growth generating revenues to government which enable funding our social programs, therefore our quality of life.

That economic link is illustrated in a series of reports released within the last two years by the Canada West Foundation.

The first report released in January 2013, ***At the Intersection: The Case for Sustained and Strategic Public Infrastructure Investment*** examines the link between infrastructure and economic growth. It makes the case that sustained, predictable public and private sector investment in infrastructure fuels economic growth generating revenues necessary to fund social programs. It also notes that historically low long-term interest rates have created market conditions that are ideal for increased infrastructure investment.

The second report released in November 2014, ***Building on advantage: Improving Canada's trade infrastructure*** examines the role of trade infrastructure to compete in the rapidly evolving global markets and offers strategic steps to harness trade related investment to benefit national economic growth and by extension our quality of life. Good trade infrastructure reduces transportation costs, creates global supply chain advantages and demonstrate Canada's reliability as a supplier. Conversely, bottlenecks lead to lower profits, lost market opportunities, fewer jobs and higher social and economic costs.

More recently, Premiers in their January 2015 Charlottetown meetings had presented to them this same message by Kevin Lynch, currently Vice-President of the BMO Financial Group and formerly clerk of the federal Privy

Council. He pointed out that strategic, targeted infrastructure investment should be harnessed to improve Canada's competitiveness and productivity - which according to the World Economic Forum Competitive Index has substantially dropped from 9th worldwide in 2010, to 19th by 2014 and fell behind the United States - thereby risking our economic growth capacity and opportunity.

Focusing infrastructure investment on economic growth for example, will not only help address the condition of our infrastructure, its pays back handsomely in terms of economic return.

The Conference Board of Canada for example conservatively estimates that for every $1 invested in infrastructure, the return to the economy is $1.16. Canadian and United States studies show that for every $1 billion invested in infrastructure between 8,000 and 36,000 jobs are created.

In support of the above, the Mayor and Council are encouraged to commit to core infrastructure investment planning built upon the following *four point approach* which support comments made related to the Operating Budget.

First....adopt suggested *Six Organizing Principles* to underpin all steps going forward. They are:

- **A permanent** infrastructure investment plan not unlike our permanent investment public safety, recreation, healthcare, and education;

- **Focus on economic growth** investments as a matter of first priority, without ignoring key assets that already enable or support economic activity but require upgrading;

- **Embrace innovation** in design, construction, maintenance and rehabilitation so it becomes part of the design challenge (and opportunity), to stretch the service life and reduce life cycle maintenance costs of our infrastructure investments. Innovation includes capital program management;

- **Harness partnerships** with the private sector, the engine of innovation, growth, jobs, prosperity and taxes to government, to benefit from its product development and service delivery skills;

- **Transparently dedicate revenue streams** preferably growth taxes for these purposes. Existing municipal revenues streams, even coupled with efficiency gains, are inadequate to the tasks at hand; and

- **Mandate mandatory periodic and transparent public reviews**, to account for expenditures, enabling experience based adjustment for the future, providing the public security, and ensuring public sector investment purpose, discipline, transparency and accountability.

Second ... Implement the 2011 Infrastructure Funding Council (IFC) Report recommendations in those areas within municipal government competence. The IFC Report was commissioned by and for the Association of Manitoba Municipalities (AMM) and the City of Winnipeg to examine and recommend infrastructure investment funding and management approaches for Manitoba's municipalities.

Third ... We commend your continued support to build upon the existing *'Dedicated Regional and Residential Streets Reserve Accounts'* strategy which transparently and predictably allocates revenue streams to begin incrementally addressing Winnipeg's almost $8 billion infrastructure investment.

Fourth ... Given that Winnipeg and all municipalities in Manitoba, even with found efficiencies, do not have the revenue streams with which to address Manitoba's $14 billion infrastructure deficit, Mayor Bowman should champion pressing the Premier - as called for in the 2011 Infrastructure Funding Council (IFC) Report - to negotiate a fair, balanced and responsibly shared funding agreement for all Manitoba municipalities with which to address the almost $14 billion provincial municipal infrastructure deficit.

ACCELERATING CONSTRUCTION PROGRAM

Of equal significance and importance given growing infrastructure budgets, is ensuring a streamlined, efficient process which recognizes that the elected branch sets and adopts budget and policy priorities, and then hands off and appropriately empowers its professional administration to project manage its delivery.

Administration should be held accountable for failure but equally so, properly acknowledged for successes - of which there are many examples.

The city's public works departments are competent, professional and capable of delivering the programs, but, respectfully Council must enable its public servants to deliver on Council's stated capital and political priorities.

How? We repeat for your consideration and hopefully adoption, the following recommendations which support a *'partnered elected/administrative branches'* approach to achieving accelerated road and infrastructure program management and delivery:

1. Council should approve 150% of the construction/capital program annually in November - 100% for the next and 50% of the following year's construction program;

2. Upon budget approval, it should enable Administration to award design responsibilities to the engineering community based upon objective assessment of merit, experience and project rating. Such criteria aid in ensuring streamlining the current cumbersome, time consuming and unnecessarily costly proposal process;

3. Target to tender and award 80% of the program annually between November and March to enable construction to start no later than May thereby extending the construction season;

4. Permit flexibility -- which the above allow -- in the scheduling of projects within the contract parameters minimizing or eliminating unrealistic project start and completion dates thereby enabling industry's ability to efficiently organize its affairs;

5. Orient program design preferences in favor of larger projects. In the case of streets for example, larger projects whether regional, collector or residential, would reduce the waste associated with mobilization and demobilization; enables cost advantages of economies of scale; supports design award and delivery efficiencies; and ultimately delivers more product per dollar; and

6. Use penalties for late and bonuses for early completion in profile projects in a balanced manner. Relying on penalties alone sets a negative relationship tone and results in adding the risk of unreasonable penalties to the bid price. Balancing penalties with bonus opportunity levels out the bidding process and provides more of an incentive.

Benefits

Adopting the above six points would *support the following political, public and budget outcomes*:

- enables political project selection
- enables realizing on annually increasing construction projects
- assists departments meeting Council priorities
- improves labor productivity, supply logistics and program management
- enables more competitive bidding which could result in overall cost savings of up to 15% due to gained efficiencies thereby further expanding the program value
- improves program scheduling and related delivery efficiencies
- expands the construction season and therefore ability to complete more projects
- accelerates construction project completion
- supports delivery of Council adopted program priorities

- every week(s) saved from 'process' adds a matching week(s) to potential summer month work in conditions far more favorable and productive than the shorter hours available in the fall.

The certain outcomes of continuing with the status quo process and system will be: construction delays, higher project costs, frustration of civic policy and capital program objectives, and an angry public.

CONCLUSION

Our brief makes reference to two potential public policy funding initiatives - they require clarification.

Our recommendation number four related to the *Operating Budget* found at page three (3) "call(s) upon the Mayor and Council to champion pressing the Premier to negotiate a comprehensive '*New Fiscal Deal*' for municipalities with which to address current and future municipal government challenges - operating and capital - whose current and emerging burden and cost far outstrip their capacity to fund."

At page five (5) related to the *Capital Budget* we urge that "Mayor Bowman should champion pressing the Premier - as called for the in the 2011 Infrastructure Funding Council (IFC) Report - to negotiate a fair, balanced and responsibly shared funding agreement for all Manitoba municipalities with which to address the almost $14 billion provincial municipal infrastructure deficit."

Our preference is for the first of the above two recommendation who terms of reference would include the infrastructure funding arrangement. We express this preference because a comprehensive re-negotiation and re-write of municipal government taxation capacity and access to revenues is what is required, and Manitoba as a province joined by municipalities and key stakeholders should lead the nation by example.

We would however understand and work to support if the adopted first step was to engage the province in discussions associated with an infrastructure investment funding strategy.

In conclusion, the MHCA acknowledges the difficult choices that those in elected office are charged and challenged to make.

We choose as a matter of principle to be part of the solution, not the problem. Accordingly, we are quite ready, willing and able to actively engage in constructive debate, discussion, participation and leadership related to our recommendations and / or related objectives.

We sincerely thank you for considering our submission and look forward to any opportunity to be of further assistance.

Submitted with our great respect,
MANITOBA HEAVY CONSTRUCTION ASSOCIATION (MHCA)

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