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7.1

Capital Prioritization Matrix

Presented by: Diane McMordie, Director/CFO, Financial Services and Information Technology

RECOMMENDED MOTIONS

That Community Living Standing Committee or Community Growth & Infrastructure Standing Committee recommend to Council that:

1. The revised Capital Prioritization Matrix, provided as an attachment to the July 12, 2021 agenda report, be approved and utilized to inform Administration's funding recommendations for the 2022 budget and beyond.
2. That an annual Automation, Modernization and Planning fund be gradually established through an annual operating business case, funded through assessment growth, over the next 4-5 years to achieve an ultimate fund of \$700,000.

PURPOSE OF REPORT

To further refine the Capital Prioritization Matrix to support decisions regarding capital investment to support a balanced approach ensuring the building of a complete community. A secondary purpose is to establish a new funding strategy for those projects, historically funded through capital, that are operating in nature. These projects continue to be critical to the longer term relevance and sustainability of the organization but could be more appropriately addressed through a dedicated funding program.

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

As part of this Council's original Strategic Plan alongside the Corporate Business Plan, development of the Capital Prioritization Matrix was an identified project which has since been marked as complete from a project perspective. In the spirit of continuous improvement, this matrix will continue to be modified and enhanced to ensure it is meeting the current needs of the organization.

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

Financial Planning
Municipal Capital Budget Development

Budget is prepared and approved by Council for a rolling ten (10) year period with the

approval to execute one year of the plan.

The annual approval of the capital budgets is complete by December 31 of each year.

Available capital dollars are used towards the repair, maintenance and replacement of existing assets prior to consideration of new capital growth projects and assets.

Capital Charters are prepared and prioritized for new investments using the established prioritization criteria.

ALIGNMENT TO COUNCIL (OR COMMITTEE) DIRECTION OR MANDATORY STATUTORY PROVISION

AR-20-295

Sept 14, 2020

That the Community Growth and Infrastructure Committee recommend to Council:

1. That the "Capital Prioritization Matrix" provided as an attachment to the September 14, 2020 agenda report titled "Capital Prioritization Matrix", be received as information
2. That by June 2021, CGISC is presented with options and recommendations for amendments to the capital planning and funding processes that support a long term strategy for the future growth of the community.

BACKGROUND AND DISCUSSION

The City of St. Albert has sound financial policies surrounding its investment in capital assets. With both a commitment to ensuring the viability of our existing asset base prior to investing in growth projects and Council's recent commitment to providing additional investment into our RMR reserves over the next 20 years, the City has taken bold steps to ensure a sustainable community in the long term.

As we work to build our RMR reserves, we will need to continue our past practice of utilizing federal and provincial grants to backfill this shortfall. With grants on a declining trend, there becomes less funding available for Council to direct towards growth Capital projects meaning that thoughtful prioritization of these limited resources is critical to ensuring that we are investing in the right infrastructure at the right time in order to meet our long term vision as outlined in the new MDP, Flourish.

In 2018, Council approved the first Capital Prioritization Matrix which was utilized as part of the 2019 budget process to guide administrations recommendations for Capital investment. While this process was highly successful in terms of Council's ultimate support for the majority of the recommendations, in the spirit of continuous improvement, administration has continued to adjust and refine the matrix to capitalize on learnings from past years as well as looking to the future.

The City of St. Albert is becoming a leader in the area of prioritized capital investments. At a seminar

put on by the Government Officer's Finance Association (GFOA) titled: Preparing and Implementing A Capital Improvement Plan, of the 50 or so municipalities participating, only 2 had any kind of prioritization criteria/processes and only 1 had a methodology as robust as St. Albert. A couple of municipalities in the region have already reached out to us to learn more about our matrix and processes.

At the September 2020 CGISC meeting there was some questions posed by administration regarding what gaps may still exist in our processes and what strategies might we look at to fill them.

The first issue we wanted to address surrounds the question of how do we ensure that we are building a complete community? To ensure we continue to attract and retain both residents and businesses, we need to balance our investments to include both community needs (fire halls, road improvements etc), community wants (indoor and outdoor recreation, trails, trees, cultural amenities etc), and corporate infrastructure (Public works amenities etc.) .

The second issue we wanted to address was alternative funding mechanisms for plans, studies and information technology investments. While these items are truly operating expenses, they have historically been funded through the capital budget. Further discussion and recommendations surrounding these items is provided in a subsequent section of the report.

Building a Complete Community - The Capital Prioritization Matrix

Given the categories and weightings on the existing prioritization matrix, the outcome was providing for very high scores for emergency services projects and road projects. Under the current structure, it was difficult for projects in any other category to make it high enough up the list to support an administrative recommendation. Given the safety aspect of these project types, there is some logic as to why they naturally migrate to the top of the list.

Without an additional lens to look through, the City would likely invest little into recreation, culture, environment or other projects in the coming years.

A cross functional team including Finance, Engineering, Public works, Recreation and Planning was put together to look at possible solutions to address this issue.

One of the initial ideas contemplated was to "split" the available capital funding to different asset categories. For example, if the estimated available funding over the next 5 years was \$50 M and we assigned 10% to recreation, we would prioritize just the recreation projects to meet the \$5 M allocation. It became apparent fairly quickly that this may not be the best way to address the issue. This would mean that a project such as Millennium Park would never get built. The biggest hurdle impeding this approach is that there is no way to gain consensus regarding an appropriate or reasonable allocation to each asset type. Priorities will change over time, which would be hampered by a rigid fixed allocation.

The conclusion the committee came to was that we are on the right path with the prioritization tool and that further amendments to the categories and weightings would help the City achieve it's goals. The following are some of the more significant changes made to the tool.

1. Safety and environmental were reduced from 25 to 15 points. While still very important, this

category alone made almost all emergency services and road projects float to the top of the list. One of the challenges when assigning the safety or environment score is it is difficult to assess the extent of a future risk when there is no data to support that a quantifiable issue exists today. For any specific project, there will always be opportunity to move a project up the list for reasons other than their score.

2. Priorities section was increased by an additional 5 points (from 20 to 25) with the additional 5 points being given to Council priority/business plans. Once the long term strategies have been developed out of the new MDP goals, this will likely be recommended to be added to balance against the council priorities. This will have the advantage of applying a long term goal strategy as well as a Council term prioritization.
3. Under the Service Levels/Services Due to growth, the sub-categories were amended to give higher points to those projects that create equity among neighborhoods over increased services. An example would be to ensure each neighborhood has equity in their park/amenity spaces over a traffic calming initiative in 1 neighborhood.
4. The Payback/ROI section has been expanded to include recognition for those projects that will either defer or reduce future operating costs.
5. The final change was an added category called "Historical Investment". This category will either add or deduct points based on whether or not that "service area", has or has not had a significant investment in the last 5 years.

The revised Matrix is anticipated to help us achieve our goal of investing in our entire community by applying a balanced view of all the aspects that residents describe as making St. Albert a great place to live, work and play.

One of the recommendations from the E&Y Operational and Fiscal Review was to pursue multi-year budgeting which was further endorsed by Council at the June 21, 2021 Council meeting. Having a structured prioritization methodology to guide the significant investments we make in capital assets supports the longer term planning needed to effectively transition to a multi-year budget.

Operating Vs. Capital Funding, Alternative Funding Mechanisms for IT Investment and Plans

The secondary issue that was examined as part of the capital budget process review deals with our historical practice of funding activities that are truly operating in nature (ie do not involve a capital asset) from our capital budget.

Some of the items that fall into this category could include some planning items such as the transportation master plan, some City led ASP's, environmental monitoring plans, and some IT upgrades. The specific items have varied from year to year however these types of items do not meet the definition of capital expenditures and therefore a different funding mechanism should be considered.

The complete history of this practice is unknown however the likely reason these items have been funded through capital is the fact that the projects are one-time in nature so having them added and removed from the operating budget on an annual basis as required causes fluctuation in the tax rate.

The second challenge that is emerging is that the prioritization tool that we now use for capital assets is structured specifically to score the aspects of the built environment and these types of projects receive very little points in most categories.

This is significant because many of these planning exercises and IT investments are critical to the long term sustainability of the organization and should be given proper consideration. Administration is in the best position to understand the long term needs of the organization, the pressures and requests from taxpayers and the future landscape of the IT environment.

Administration is recommending the gradual establishment of an operating budget over a 4-5 year period with a final amount of \$700K. This budget would be established through an annual operating business case funded through assessment growth revenue. The advantage of this approach is that this fund can be developed over time with no impact to the tax rate.

How would this fund be managed and what would it support?

As mentioned previously, this annual business case would support projects that fall into both "Planning" and "Information Technology" investments. Our intent is to allocate this operating budget into 2 distinct funds under the Chief Administrative Officer and each will include different processes and governance models for investment decisions. While we are still in the process of establishing these processes and parameters, some of the initial thoughts and guiding principles are provided below.

Planning projects:

Planning provides a unifying framework for decisions, pulling all interests together to find the best path forward. This program will support the investment to ensure resources are available for the City to properly plan and understand how decisions will impact economic development, transportation, population, education, housing, services, parks and public spaces, and facilities. These elements contribute to quality of life in the city. We want to guide development in a way that can reflect the public interest, the community vision, and address emergent or upcoming challenges.

Processes and Principles for this proposed fund include:

- may include such things as transportation plans, feasibility studies, site investigation, potential program review, City-led ASP's.
- does not include planning exercises directly linked to a capital project, such as concept design,

detailed design or public participation.

-Final recommended annual operating budget would be \$300K.

-Longer term internal business planning processes will inform the needs and projects will be prioritized.

-Ultimate decision making for project approval will reside with the Chief Administrative Officer.

-Un-allocated dollars in a fiscal year can be carried forward (through an operating carry-forward or the establishment of a new reserve) for use in future years to an established maximum fund balance of \$1 M

-Critical planning projects that cannot be supported through this internal fund due to the value of investment required (compared to the current value of the fund), will be brought forward to Council for consideration of funding either through the budget process or as an ad-hoc funding request.

-While officially under the control of the CAO, the CAO may choose to bring an item/project to Council to confirm support for the investment.

-Will establish an annual reporting mechanism to Council to communicate the projects approved for funding and balance of the fund.

Information Technology:

As everyone is aware, technology platforms and advancements develop at a very rapid pace - this applies equally to new technology and to the technology and systems that we already have. In order to stay relevant, capitalize on efficiencies, optimize our investments and provide quality services to taxpayers, it is critical that the organization has the ability to remain nimble and make key enhancements to our IT infrastructure, equipment and software. The EY Operational and Fiscal review supports investments surrounding digitization, modernization and automation however these goals are difficult to achieve without a dedicated and consistent funding source.

A secondary factor supporting the establishment of an operating budget is that the global information technology environment is in a transformational stage. In the past, the majority of new technology initiatives involved high up-front capital investment as software was owned and hosted on our servers and desktops. This environment is quickly transitioning to a SaaS (Software as a Service) environment meaning that the software company owns and hosts the software in a cloud environment and we as an organization in essence purchase annual licenses to use it. As a result, the IT environment has moved away from these products being a true upfront capital expenditure to an ongoing operating expense.

One of the most notable examples in recent times includes our move to the Microsoft (MS) Office 365 environment. Prior to this transition, Microsoft products (ie excel, word) had to be "purchased" for each computer and hosted on our internal servers. We were typically several versions behind due to the cost and internal effort to upgrade. Due to this, only the most basic

MS products were purchased for staff use. With the move to Office 365, we now have immediate access to new functionality and have access to MS products which we never has in the past. These new products enhance collaboration and information sharing and fully supported our move to work-from-home during the pandemic.

Some of the major advantages of this transition to a cloud environment include:

1. Lower up-front costs. Some one-time costs are still incurred to support some customization as well as training.
2. All new releases, including enhancements to the software, are automatically available to us as a licensed user. The implementation of the enhancements for business applications will still require some planning and resources.
3. Will eventually reduce our need to purchase and maintain large servers.
4. In this environment, the work of IT staff changes from making sure that the application and related technology works, to managing the application to ensure optimal use and benefit and managing the cloud environments.
4. Better supports a remote and/or decentralized workforce.
5. Provides greater scalability.
6. Supports business continuity

Processes and Principles for this proposed fund include:

-Fully described as the Automation & Modernization fund, this fund may include such things as new cloud based software, addition of modules for existing software, targeted training to ensure full use of existing software, vendor development of customized reports or functions, creation of more on-line offerings for residents, and support for GIS modernization.

-This fund is not intended to cover larger city front facing projects such as, the Next Generation 9-11 initiative, continued expansion of the MAN (Municipal Area Network) or future consideration of Wi-fi in parks as these truly are more Capital in nature and due to the larger investment, should be driven by Council direction and priorities.

-Final recommended annual operating budget would be \$400K.

-We are currently developing and intend to implement an Information Technology Governance Committee in 2021. This will be an internal Director based Committee that will review and prioritize all new technology related initiatives, considering business needs, relative benefits to the City and/or taxpayers and develop a 3-5 year funding strategy to support these initiatives. Recommendations from this Committee will be presented and discussed with Executive Leadership.

- Ultimate decision making for project approval will reside with the Chief Administrative Officer.
- Un-allocated dollars in a fiscal year can be carried forward (through an operating carry-forward or the establishment of a new reserve) for use in future years to an established maximum fund balance of \$1 M.
- Critical IT projects that cannot be supported through this internal fund due to the value of investment required (compared to the current value of the fund), will be brought forward to Council for consideration of funding either through the budget process or as an ad-hoc funding request.
- While officially under the control of the CAO, the CAO may choose to bring an item/project to Council to confirm support for the investment.
- Will establish an annual reporting mechanism to Council to communicate the projects approved for funding and balance of the fund.

Summary

Scarce resources enhance the need to be able to effectively prioritize both financial and human resource investment. The vast and varied needs of a municipal organization, along with its residents and businesses, provide an additional challenge which creates the need to wear many hats and look through many lenses.

Continual improvements to our capital growth prioritization tool and supporting processes ensure that we have considered our investments from a holistic, long term and sustainable perspective that supports Council in achieving the Community Vision for the future.

Establishment of operating funds to support valuable planning initiatives and a commitment to continuous improvement through thoughtful investment in information technology will ensure that the organization can remain relevant and responsive to changes in the environment that ultimately benefit residents, businesses, staff and the organization as a whole.

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

None required

IMPLICATIONS OF RECOMMENDATION(S)

Financial:

The revised Capital Prioritization Matrix will inform Administrations recommended investments for the upcoming year. Council retains final decision making with regards to capital project approvals.

The gradual establishment of operating funds to support automation, digitization and planning

investments will have no impact to taxes as it will be supported through new assessment growth revenue.

Legal / Risk:

None at this time

Program or Service:

None at this time

Organizational:

Staff resources will be required to support oversight and prioritization of these funds as well as Council reporting. Any project approved under these funds will take staff resources to implement.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

If Council does not wish to support the recommendation, the following alternatives could be considered:

Alternative 1. Do not support the proposed changes to the Capital Prioritization Matrix. Should Council want to action this alternative, no motion is required and administration will continue to make recommendations based on the existing Matrix

Alternative 2. Do not establish an operating fund for Automation, Digitization and Planning. Should Council want to action this alternative, no motion is required and these items will continue to be address on a one-off basis through the Capital budget process or ad-hoc requests

Report Date: July 12, 2021
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Deputy Chief Administrative Officer: Kerry Hilts
Chief Administrative Officer: Kevin Scoble



Capital Project Prioritization Matrix

Project Name &

Instruction for scoring project: Select value in Yellow Cells, Select or provide description in Peach Cells

Criteria (Give score for all categories that apply)	Weight		Score	Weighted Score	
HEALTH SAFETY AND ENVIRONMENT					
(1) Eliminates or significantly reduces an impact or hazard to public health and/or safety of the community and/or staff	75%	Select From List	0	0	Maximum Score 15
(2) Improves environmental protection/addresses environmental impact	25%	Select from list	0	0	

Criteria (Give score for all categories that apply)	Weight		Score	Weighted Score	
PRIORITIES					
(1) Links to a defined council strategy/priority, corporate business plan activity or legislation (Choose up to 2)		Select From List	0	0	25
(2) Supported by Municipal Bylaw or Council Policy		Select From List	0		

Criteria (Give score for all categories that apply)	Weight		Score	Weighted Score	
SERVICE LEVELS/SERVICES DUE TO GROWTH					
(1) (a) Maintains Services & Service Levels as approved by Council (at a neighborhood level)		Select From List	0	0	Maximum Score 42
(b) New/Increases to City service levels		Select From List	0		
(2) Usage by Community		Select From List	0		
(3) Improved recreational/cultural opportunities		Select From List	0		
(4) Supports non-residential attraction/retention		Select From List	0		

PROJECT COMMITMENT					
The most advanced stage the project will hit in the current year	Weight		Score	Weighted Score	Maximum Score
(1) Stage of project (in current Year)		Select From List	0	0	10
(2) Public Participation/input to date		Select From List	0		

PAYBACK/ROI/SPECIALIZED GRANT					
Criteria	Weight		Score	Weighted Score	Maximum Score
(1) Payback/ROI/Operational Savings		Select From List	0	0	5
(2) Specialized Grant/Rebate/Sponsorship/Donation Available and Likely and >25% of project total		Select From List	0		

Historical Investment					
Criteria	Weight		Score	Weighted Score	Maximum Score
(1) Significant Investment to asset in past 5 years		Select from list	0	0	3

Total Project Priority Score			-		100.00
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