The bottom line

Municipalities move to include O&M

Caledon Centre for Recreation and Wellness – built to serve the interests and needs of the community.

When construction winds up on a major public sector infrastructure project, the people in charge work hard to celebrate the accomplishment. The moment is usually captured with a ribbon-cutting ceremony and a collection of grin-and-grip photos. There is an underlying assumption that the project can finally and officially be declared a success.

Yet that success could sour in relatively short order. Even the shiniest new bridge eventually needs paint and repairs; even the most architecturally stunning new hospital needs to be outfitted with equipment, cleaned, and filled with staff. In fact, almost every facility continues to incur costs long after the day it is "finished." In some cases, the people promoting a project ignore these costs, or at least separate such ongoing expenses from their budget calculations. From this perspective, the bottom line occurs when the construction crews leave.

In reality, the bottom line sits a bit lower on the page. According to the Federation of Canadian Municipalities' Centre for Sustainable Community Development, this distinction in attitudes toward accounting can make the difference between a successful public undertaking and the kind of white elephant that taxpayers resent. The FCM's *National Guide to Sustainable Municipal Infrastructure*, points out the virtue of linking any capital investment with a projected operations and maintenance (O&M) budget for that investment.

"In effect, the municipality is able to make better decisions regarding capital project planning, if projects are only allowed to go ahead once the entire projected cost package, including O&M, is reviewed," states the guide. "This method includes accounting for depreciation, reliability and maintenance schedules, and results in optimizing asset performance and life cycle considerations."

It sounds so simple. And indeed, for private sector investments, this approach is second nature. A department store chain would never build a new branch without convincing itself that the site will generate enough revenue to justify this move. What is surprising, however, is that a public sector agency might not seek such information in advance, budgeting only for the initial construction. The result could be an underutilized or improperly designed piece of infrastructure; or worse, one that causes an unanticipated drain on other resources in the community. City officials, saddled with a new building that suddenly needs funds to operate, must divert money from other places or risk seeing their grin-and-grip photos turned into a rogue's gallery.

Many municipalities, to their credit, have pursued major infrastructure activities by linking capital expenditures to operations and maintenance. The *Infrastructure Guide* cites instances of cities and towns across Canada that have done so. About an hour's drive north of Toronto, for example, councillors in the mid-sized community of Caledon enshrined these principles in their construction policies several years ago.

"The problem is not building buildings," says Sam Jones, the city's treasurer and director of corporate services. "It's maintaining them after the fact."

With that difficulty in mind, the city responds to requests for new construction by worrying less about completing the building and more about how to pay for it afterward. That was how administrators responded a few years ago when Caledon's recreation department sought to respond to mounting public pressure for a new community centre. It was an expensive proposition – one that ultimately cost some $10 million. An operational business plan became the centrepiece of the process that led to the city's approval.

An outside consultant was hired to provide an objective, independent assessment of the proposed location for the new facility, including who would use it and how accessible it would be to these clients. Caledon, a mixture of rural and urban areas with a population base of around 50,000, expected the centre to meet a wide range of interests and needs. The site would feature a pool, an indoor track, a fitness centre, a gymnasium and a number of smaller meeting rooms. The consultant's analysis took into account the anticipated growth pattern of the region, and the potential for the centre to attract people from nearby towns.

"Based on that information, we did some very conservative projections of revenue streams," says Jones. "When we finished that, we were also working on the expenditure stream."

City staff conducted their own 10-year projection of revenue that could be generated to pay for the new facility and for running it afterward. Part of the money would come from sources such as a restaurant franchise on-site and licensing the right to sell soft drinks to a single company.

"We told council we'd build in these calculations on the expense side," says Jones. "We also said we'd build in an annual reserve account that would provide a capital reserve, so when the facility needs paint and so forth, the money will have been set aside on a yearly basis."

Indoor pool at Caledon Centre.

If the building needs a new coat of paint worth $50,000 in five years, for example, then those funds will come from $10,000 being set aside every year for that. A similar strategy was adopted to cover the construction debt, with a fund diverting revenue to keep up with repayment.

The 45,000 square-foot Caledon Centre for Recreation and Wellness officially opened in the summer of 2002, immediately becoming a showpiece for the region. Over time, though, city officials are just as interested in the centre's status as a showpiece for how municipalities can tackle a major initiative in a coherent, reliable way.

Smaller communities face even more daunting challenges when they consider larger projects. The town of New Glasgow, NS, proceeded carefully when it looked at replacing a decrepit wharf on its tidal river waterfront in the early 1990s. With a population of about 10,000 well rooted in the heart of the Maritimes' storied Pictou County, these are people who take their waterfront seriously. And city officials took the financial implications of the new wharf no less seriously.

"One of the truths about any small town is that you're very close to your citizenry," says Donna Truesdale, New Glasgow's director of finance. "The taxpayers are often your best friends. You do not want to have something that isn't going to work, because it's going to hit them directly in the pocket."

She adds that all levels of the community had to be brought into the project – members of the local business sector, town councillors, and anyone else who might express an interest in how the town could make over its shoreline image. They formed the New Glasgow Riverfront Development Society, which later became the New Glasgow Riverfront Development Corporation. This organization not only oversaw the amassing of funds to get the project started, it continues to oversee the operation and maintenance of the completed facility.

"Instead of the old style, which is from the top-down, you almost have to have it generated from the bottom-up," says Truesdale. At the same time, town officials had larger goals, which would be reflected in long-term plans tied to the waterfront. Replacing the wharf, which was completed in 1996, set other work in motion, such as the installation of walking paths and an all-season amphitheatre. This development has been key to attracting pubs, restaurants and seasonal events to the site, all of which have helped to recoup the initial expense.

That original outlay for replacing the condemned wharf was considerable for a municipality of this size, in excess of $1 million. Sizeable support from federal, provincial, and private sources made the cost more manageable, but planners regarded it as essential to establish an organization that could tie capital expenditure to the operating and maintenance budget.

Among other things, the new facility could take advantage of its status as a prime boating destination, the first such designation New Glasgow has had in decades. Within a few years, the marina on the wharf was seeing significant income from the several dozen boats that berthed there annually. The town generated further revenue by managing the sale of fuel at the marina, much to the satisfaction of Environment Canada, which regards the river as a sensitive Atlantic salmon habitat.

Mayor Ann MacLean credits the New Glasgow Riverfront Development Corporation with finding the best costs for construction work, as well as optimizing the utilization of the finished facilities.

"In the first year we were within pennies of the cost," she says, adding that it was important for the town to be perceived as capable of delivering a novel form of public infrastructure with this kind of efficiency. If "hidden" costs emerge, or other difficulties crop up, many people would urge the government to restrict its ambitions.

"When you're investing in something that may not be seen as traditional, it's very important that the community be seen as the owner and that the community play a major role in driving it," says MacLean. "It's also good from an accountability perspective."

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