

DATE OF MEETING October 21, 2020

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SUBJECT ASSET MANAGEMENT UPDATE

OVERVIEW

Purpose of Report

To provide Council with interim measures for the continuation of funding for asset management due to delays caused by the COVID-19 Pandemic.

Recommendation

That the Finance and Audit Committee recommend that Council approve:

1. Extending the annual 1% property tax increase contribution to the General Asset Management Reserve for five (5) years or until the next asset management update and recommendations are presented to Council and include this change in the 2021-2025 Financial Plan; and,
2. Extending the annual 2.5% water user fee increase for 2021 for contributions to the Water Asset Management Fund reserve and include this change in the 2021-2025 Financial Plan.

BACKGROUND

The City of Nanaimo's investment in infrastructure supports delivery of needed and desired services to the community. The estimated current replacement cost of the City's infrastructure is over \$3 billion. A robust asset management system and long term planning provides decision makers with critical information and analysis for prudent infrastructure investment and funding strategies.

In 2008, Staff began developing the City's asset management knowledge and capacity. The first asset management report, the '2010 Asset Management Plan' focused specifically on infrastructure such as roads, sewers, water facilities. The '2012 Asset Management Update' was expanded to include renewal of all City infrastructure, identified a funding gap and recommended strategies for closing the gap with the creation of asset management reserves.

In 2013, Council approved three new asset management reserves for the general, sewer and water funds. Annual increases to property taxes and user fees were approved to provide sustainable contributions to these reserves and were as follows:

- a 1% increase to property taxes in each year for the General Asset Management Fund reserve was approved to 2017.

- a 5% increase to sewer user fees each year for the Sewer Asset Management Fund reserve was approved for 2013 to 2017 and 4% annual increase for 2018 to 2022.
- a 2.5% increase to water user fees for each year for the Water Asset Management Fund reserve was approved to 2020.

At the 2017-MAR-17 Regular Council meeting, a '20 Year Investment Plan and Asset Management Update', that included both renewal and growth needs for the City was presented. The purpose of the update was attention directing, to allow Council to review and make decisions on the City's investment and funding strategies. The projected 20 year investment was \$1.1 billion with funding strategies providing \$794 million.

The total projected funding gap was \$258 million. The projected funding shortfall included \$117 million in development contribution charges for new/upgraded infrastructure required due to growth. The projected funding shortfall for renewal, strategic and new/upgraded infrastructure funded from general revenues and reserves was \$141 million.

Strategies approved by Council to close the funding gap included:

- Continuing the annual 1% increase to property taxes for contributions to the General Asset Management Fund reserve until 2022;
- Completing the current DCC review and adoption of new bylaw; and,
- Continuing the development of the City's asset management capacity including development of governance, risk management frameworks and performance monitoring. |

DISCUSSION

|An asset management update was planned to be completed in 2021 however, staffing constraints and the reprioritizing of the workload due to the COVID-19 Pandemic have delayed the update. The update is not anticipated to start until late 2021 or early 2022 and any recommendations out of this review will likely come to Council for consideration in late 2022 or early 2023.

The City is currently undertaking a condition assessment of all city facilities. As this condition information is incorporated into the Asset Management Plan, additional resources will be needed to meet funding requirements.

Extending the 1% asset management contribution for five years will allow staff to continue planning for the long term renewal of existing infrastructure while they work to complete an update of the Asset Management Plan.

Staff have undertaken a User Fee Review for water and sewer fees and this review is nearing completion. A report will be presented for Council's consideration and discussion in early 2021. Staff originally planned to bring the report to Council in 2020 but again, staff had to reprioritize workloads due to the COVID-19 Pandemic, which have resulted in delaying the project.

The User Fee review has focused on two (2) key areas:

- A Financial Review for each utility to determine future customer rate increases that are needed to support sustainable services; and,

- A Rate Structure Review for each utility to identify changes that improve user equity, conservation and administrative efficiencies.

Public consultation will be undertaken to educate and inform users on the proposed changes and allow users to provide their feedback.

The anticipated start date of any approved changes is 2022-JAN-01.

Based on Preliminary results on the User Rate Review, it is anticipated there will be a recommendation to extend the 2.5% increase for the water asset management reserve beyond 2020. This interim measure will ensure there is no funding gap due to the delay of the User Rate Review being presented to Council.

The 4% current increase for the sewer asset management reserve is in effect until 2022 and any recommended changes resulting from the User Fee Review will be presented to Council before then.

OPTIONS

1. That the Finance and Audit Committee recommend that Council approve:
 1. Extending the annual 1% property tax increase contribution to the General Asset Management Reserve for five (5) years or until the next asset management update and recommendations are presented to Council and include this change in the 2021-2025 Financial Plan; and,
 2. Extending the annual 2.5% water user fee increase for 2021 for contributions to the Water Asset Management Fund reserve and include this change in the 2021-2025 Financial Plan.
 - **The advantages of this option:** Allows staff to continue planning for the long term renewal of existing infrastructure while they work to complete an update of the Asset Management Plan. Approving this change now will allow staff to include the extended increases in the Provisional 2021-2025 Financial Plan.
 - **The disadvantages of this option:** Additional taxes and user fees would be incurred by taxpayers.
 - **Financial Implications:** This will allow staff to continue to fund the existing 10 year plan.
2. That the Finance and Audit Committee recommend that Council deny making any changes to the current Asset Management contribution plan.
 - **The advantages of this option:** Additional taxes and user fees would not be incurred by taxpayers.
 - **The disadvantages of this option:** Staff would have to delay projects due to funding shortfalls. The City could incur increased maintenance costs due to a delay in replacing assets.
 - **Financial Implications:** Funding shortfall would occur and result in projects being delayed.

3. That Council provide alternative instructions.

SUMMARY POINTS

- In 2008, staff began developing the City's asset management knowledge and capacity.
- In 2013, Council approved three (3) new asset management reserves for the general, sewer and water funds and annual allocations to these reserves were established.
- In 2017, a 20 Year Investment Plan and Asset Management update was presented to Council.
- A total projected funding gap of \$258 million was identified and strategies to close the funding gap were approved.
- An Asset Management update was planned for 2021 however due to organizational changes, staffing changes and the COVID-19 Pandemic, the update not anticipated to start until late 2021 or early 2022.
- Extending the 1% increase for the GFSR for five years will allow staff to continue planning for the long term renewal of existing infrastructure while they work to complete an update of the Asset Management Plan.
- Based on indications from the current User Fee Review that is underway, it is anticipated there will be a recommendation to extend the 2.5% increase for the water asset management reserve beyond 2020. This measure will ensure there is no funding gap in the Water Fund.

ATTACHMENTS:

Attachment A – March 23, 2017 City of Nanaimo 20 Year Investment Plan and Asset Management Update Report

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