

DATE OF MEETING JUNE 14, 2023

AUTHORED BY WENDY FULLA, DEPUTY DIRECTOR, FINANCE

SUBJECT 20 YEAR INVESTMENT PLAN AND ASSET MANAGEMENT PLAN UPDATE

OVERVIEW

Purpose of Report

To present the 20 Year Investment Plan and Asset Management Plan Update to the Finance and Audit Committee and seek support for recommendations.

Recommendation

That the Finance and Audit Committee recommend that Council support the recommendations included in the *20 Year Investment Plan and Asset Management Plan Update* and direct staff to include in the 2024 – 2028 Financial Plan:

1. An annual one per cent increase to property taxes for contribution to the General Asset Management Reserve Fund for the next five years (2024- 2028) or until the next update and recommendations have been presented to Council; and
2. Maintaining the annual two per cent increase to water user fees for contribution to the Water Asset Management Reserve Fund until the next update and recommendations have been presented to Council.

BACKGROUND

Required changes in financial reporting for municipalities in 2008 brought attention to aging infrastructure, and challenges facing local governments in funding operations, renewal and growth of their infrastructure. Asset management (AM) principles and practices were formalized to help local governments face these challenges. A robust AM system provides decision makers with information and analysis for infrastructure investment.

The City of Nanaimo (the City) began developing its AM knowledge and capacity in 2008. An Asset Management Steering Committee was formed to lead and coordinate ongoing improvements to the City's AM capabilities and competencies.

Asset Management Plans

This is the fourth AM Plan presented to Council led by the Committee. In 2010, the first AM Plan was presented and focused on engineering and public works infrastructure and provided a “big picture” on infrastructure in-service history, projected lifecycle replacement needs and current funding levels. The AM Plan Update presented in 2013 expanded its focus to include all current City asset infrastructure. The 2013 AM Plan Update also included recommendations that resulted

in Council approving the creation of three asset management reserves funds (general, water and sewer) with annual contributions from property taxes and user fees to provide sustainable funding for infrastructure replacement.

In 2017 the first *20 Year Investment Plan and Asset Management Update* was presented to Council. Prepared for attention directing purposes the 20 Year Investment Plan included renewal, growth and strategic projects and recommended strategies to reduce the funding gap identified.

Update on Continuous Improvement Initiatives

In May 2018 the City's AM Policy was adopted by Council and the City's Strategic AM Plan (SAMP) was endorsed by Council. The City's AM Policy is the foundation of its AM practices. The policy supports meeting the community's expectations, ensuring the long-term health of the City's infrastructure and meeting the needs of future generations. The SAMP is a living document intended to be a staff guide on how to ensure effective adherence to the policy.

In 2021, the City began a multi year Corporate Asset Management Software (CAMS) project. Cartegraph, a software application, was selected which will map, track and manage the City's assets, and aid future decision making. Once fully implemented the software will integrate operating activities with asset investment planning.

Asset Management Funding

Since inception the following annual increases to property taxes and user fees have been approved for contribution to the asset management reserve funds:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General AM Reserve	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Sewer AM Reserve	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	2.0%
Water AM Reserve	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	0.0%	2.0%

The current one per cent annual increases to property taxes for contribution to the General Asset Management Reserve Fund will end in 2023 as an update and new recommendations is being brought forward to Council. The two per cent annual increases to sewer user fees for contribution to the Sewer Asset Management Reserve Fund will continue up to and including 2032. A two per cent annual increases to water user fees for contribution to the Water Asset Management Reserve Fund continues up to 2026 than is currently budgeted to be reduced to a one per cent annual increases for 2027 to 2032.

DISCUSSION

The City's investment in infrastructure supports service delivery of needed and desired services to the community. The new estimated replacement cost of the City's infrastructure is \$4.8 billion (2021) an increase of \$1.8 billion since the last update.

The *20 Year Investment Plan and Asset Management Plan Update*, based on 2021 inventory, will provide Council with an overview of the City's long term investment plans and funding strategies. The plan includes investment in strategic initiatives, programs and projects, annual investment programs for renewal of existing infrastructure and new/upgraded infrastructure required for growth to maintain current levels of service. The plan will support Council's review and decision

making regarding current planning processes, the City's Asset Management System and funding strategies. A key assumption change from 2017 in the 20 Year Investment Plan is the inclusion of an adjustment for inflation. However, construction costs continue to be volatile with both construction costs and CPI exceeding the two per cent inflation rate targeted by the Bank of Canada. Projected investment is meant to be attention directing and will change as the timing, scope, and costing of projects, including costing adjustments to reflect current market pricing, is refined in each project planning cycle.

Projected investment required over the next 20 years is \$2.6 billion and current funding strategies may provide \$1.6 billion. Strategies have been identified to help address the projected funding shortfall of approximately \$1.0 billion including the recommendation to borrow as the funding strategy for the major capital projects under development (project costs, timing and required borrowing will be refined as projects are further developed). The projected shortfall includes \$74.9 million in DCC contributions for new/upgraded infrastructure. A DCC review is beginning in 2023 and a new bylaw is intended to address this shortfall.

Recommendations:

1. Continue the annual one per cent increases to property taxes for contribution to the General Asset Management Reserve Fund for the next five years (2024- 2028) or until the next update and recommendations have been presented to Council;
2. That the planned decrease in 2027 from two per cent to one per cent in the annual increases to water user fees for contribution to the Water Asset Management Reserve Fund be delayed until the next update and recommendations have been presented to Council;
3. Complete the 2023 DCC review and adopt a new bylaw;
4. Fund the major capital projects under development from borrowing subject to Council and electoral approval;
5. Decommission or remove infrastructure no longer serving its purpose; and
6. Implement improvements to the City's AM System:
 - Continue to develop levels of service.
 - Continued implementation and development of Cartegraph, a corporate asset management system (CAMS) software that will map, track and manage the City's assets and aid future decision making.

A separate DCC Review report will provide additional information and seek endorsement from Council for proceeding to next steps including public consultation and new DCC bylaw. |

OPTIONS

1. That the Finance and Audit Committee recommend that Council support the recommendations included in the 20 Year Investment Plan and Asset Management Plan Update and direct staff to include in the 2024 – 2028 Financial Plan:
 1. An annual one per cent increase to property taxes for contribution to the General Asset Management Reserve Fund for the next five years (2024- 2028) or until the next update and recommendations have been presented to Council; and

2. Maintaining the annual two per cent increases to water user fees for contribution to the Water Asset Management Reserve Fund until the next update and recommendations have been presented to Council.

- The advantages of this option: Will provide funding to help address the funding gap identified in the 20 Year Investment Plan Update.
- The disadvantages of this option: Will increase property taxes and impact water user rates.
- Financial Implications: A five-year extension of the one per cent annual increase to property taxes for contribution to the General Asset Management Reserve Fund is estimated to result in an additional \$132 million contributed to the reserve fund over 20 years.

2. That the Finance and Audit Committee provide alternative direction.

SUMMARY POINTS

- The *20 Year Investment Plan and Asset Management Plan Update* has been prepared for attention directing purposes to assist Council to review and make decisions on the City's investment and funding strategies.
- The current estimated replacement cost of the City's infrastructure is \$4.8 billion (2021).
- Projected required investment over the next 20 years is \$2.6 billion and current funding strategies may provide \$1.6 billion.

ATTACHMENTS:

Appendix A: 20 Year Investment Plan and Asset Management Plan Update June 2023 |

Submitted by:

Wendy Fulla
Deputy Director, Finance

Concurrence by:

Dale Lindsay
Deputy CAO/GM Development Services

Bill Sims
General Manager, Engineering & Public
Works

Richard Harding
General Manager, Parks, Recreation &
Culture

Laura Mercer
Director, Finance