

# Information Report

**Title:** Asset Management Update

**Report Number:** Financial Services-2023-26

**Director:** Corporate Services

**Manager:** Manager.

**Meeting Date:**

Wednesday, October 25, 2023

---

## Executive Summary:

This information is being provided to Council in preparation for the 2024 Budget, as well as to provide an update on the progress of the Asset Management Plan (AMP) and financial strategy. Under Ontario Regulation 588/17, municipalities must report to Council at least once per year on the current progress of the AMP and any barriers aligning operations with the plan. A full update of the plan will be required after 5 years (2027).

## Context and Background Information:

Ontario municipalities must comply with Ontario Regulation 588/17 Asset Management Planning for Municipal Infrastructure. The requirements of the Regulation were phased in as follows with amendments (as filed under O. Reg. 193/21 on March 15, 2021):

- **Phase 1 - July 1, 2019:** Date for municipalities to have a finalized strategic asset management policy.
- **Phase 2 - July 1, 2022:** Date for municipalities to have an approved asset management plan (AMP) for core assets (roads, bridges and culverts, water, wastewater and stormwater management) that discusses current levels of service and the cost of maintaining those services.
- **Phase 3 - July 1, 2024:** Date for municipalities to have an approved asset management plan for all infrastructure assets that discusses current levels of service and the cost of maintaining those services.
- **Phase 4 - July 1, 2025:** Date for municipalities to have an approved asset management plan for all assets that builds upon the requirements set out in 2024. This includes a discussion of proposed levels of service, what activities will be required to meet proposed levels of service, and a strategy to fund the activities.

In 2022, Council adopted the 2022 Asset Management Plan which meets all of the minimum requirements under O. Reg. 588/17 up to and including Phase 4. Next steps include:

- **Facility condition assessments for municipal buildings:** A conditions assessment is a tool that will assist staff in understanding the physical condition of the facilities and assist in generating a capital budget plan for repair and replacement. The 2023 budget includes \$100,000 in funding for this work. Facilities that are included are the Davidson Centre, Tiverton Sports Centre, Armow Hall, Brucedale Community Centre as well as Underwood Community Centre.
- **Road network condition assessments:** Road condition information is updated by means of a StreetScan review performed every 5 years. Roads are inspected using mobile sensing technology, and a detailed visual record is provided. This work was last conducted in 2021 and is scheduled again in 2026, prior to the next update of the AMP.
- **Bridge inspections:** Bridges and pedestrian bridge (> 3 meters) inspections are conducted every other year. The 2023 budget includes \$25,000 for OSIM bridge inspections, and expected completion of this report is October/November 2023. Traffic counts over bridges will also be conducted to assess usage.
- **Sanitary and storm sewer inspections:** Staff have contracted external supports to flush and camera sections of our collection systems to improve day to day maintenance and to better understand the condition of our assets. Updated information from these reviews will assist with capital planning and infrastructure renewal decisions. A typical practice is to undertake assessment of 1/5 to 1/3 of the network annually, such that each pipe gets reviewed in a rotating 3-5 year basis. The draft 2024 budget will include a stormwater plan to provide information on the existing network and its overall capacity. A stormwater plan reviews the entire drainage area to understand the impacts and assists in mapped out planning for reconstruction and development requirements.
- **Fleet:** Staff are preparing a fleet plan in 2023 which will include foundational elements to assist staff in making decisions around fleet replacement, as well as tracking of metrics such as cost per km/hr of machine.

O. Reg. 588/17 requires a 10-year capital plan that forecasts the costs of implementing the lifecycle management strategy and the lifecycle activities identified in the AMP. The Financing Strategy developed as part of the 2022 AMP includes a 20-year forecast period to enable the Municipality to evaluate the sustainability of its assets over a longer-term horizon.

The AMP Financing Strategy has identified a funding gap of \$11.2 million annually. The difference between the annual lifecycle funding target and current annual contribution is referred to as the lifecycle funding gap. The financial strategy has been designed to reach full lifecycle funding levels by 2032 (Chart 4).

The AMP Financing Strategy includes the following assumptions as components of the overall strategy:

- Grant funding will continue to be a stable and long-term funding source (e.g. OCIF, CCBF);
- 50% of Bruce Telecom dividends (\$250,000) will continue as a funding source for capital projects;
- The Municipality will proactively increase amounts being transferred to capital reserve funds during the annual budget process;
- Debt financing of \$40.8 million for tax supported services over the 20-year forecasted period;

The strategy requires the Municipality to implement a consistent, yet increasing, annual investment in capital so that the excess annual funds can accrue in capital reserve funds.

An increase in the Municipality's taxation levy would be required as follows:

- 6.7% increases annually from 2023 to 2032 (includes 1.4% growth assumption)
- 2.8% increases annually from 2033 to 2041 (includes 1.4% growth assumption)

An increase in annual water and wastewater revenues would be required as follows:

- **Water:** 6.9% increases annually from 2023 to 2032, then decreasing to 3% annually thereafter until 2041
- **Wastewater:** 8.8% increases annually from 2023 to 2032, then decreasing to 3.2% annually thereafter until 2041

Since 2013, the Municipality of Kincardine has been making significant progress in making contributions through the Lifecycle Reserve Fund (Chart 1). This reserve fund was specifically established to hold funds that will help pay for ongoing and future asset rehabilitation and replacement, with the aim of reducing the infrastructure deficit. The Municipality has adopted an annual 3% tax rate increase dedicated to the Lifecycle Reserve Fund to fund future replacement and rehabilitation of capital and infrastructure. In 2023, this amounted to a contribution of \$4,350,000.

The annual 3% tax rate increase strategy does, however, fall short of the recommended 6.7% tax levy increase. The 2023 recommended reserve fund contribution would have a required tax rate increase of over 8%. The attached charts illustrate the impact of annually underfunding the Lifecycle and Infrastructure replacement costs.

Assuming that the Municipality continues to contribute the equivalent of a 3% annual tax rate increase towards future capital:

- By 2032 the annual funding gap will be reduced to \$3.5 million. By 2041, the funding gap continues to remain at just under \$2 million (Chart 2).
- By 2032, the cumulative funding shortfall amounts to \$16 million (Chart 3).

By 2032, under the recommended AMP Financing Strategy, the funding gap is eliminated entirely (Chart 4).

The draft 2024 budget will be developed using the historical approach of a 3% tax rate increase. Council may consider increasing this contribution through the budget process.

While debt, grants and property taxes have been projected to fully fund the lifecycle management strategy, other sources of funding could be used to lessen the impact to ratepayers, including increasing user fees or implementing new fees.

**Consultation Overview:**

Key stakeholders consulted in the preparation of this report include the senior leadership team with respect to their role in managing and overseeing the assets within their respective departments.

**Origin:**

Staff

---

**Attachments:** Financial Strategy Charts

**Prepared by:** Roxana Baumann

**Submitted by:** Roxana Baumann