

Information Report

Title: Asset Management Update

Report Number: Financial Services-2024-17

Director: Corporate Services

Manager: Manager.

Meeting Date:

Wednesday, September 25, 2024

Executive Summary:

This information is being provided to Council in preparation for the 2025 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:

Phase	Implementation Date	AMP Requirements	Complete (Y/N)
1	July 1, 2019	An approved Strategic Asset Management Policy	Yes – Updated Policy approved April 2024
2	July 1, 2022	An approved AMP for core assets (roads, bridges and culverts, water, wastewater and stormwater) that discusses current levels of service and the cost to maintain those services.	Yes
3	July 1, 2024	An approved AMP for all infrastructure assets that discusses current levels of service and the cost to maintain those services.	Yes

4	July 1, 2025	An approved AMP for all assets that builds upon the requirements set out in 2024, including proposed levels of service, what activities will be required to meet proposed levels of service, and a funding strategy.	Yes
---	--------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----

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.

The AMP work that has been undertaken in 2024 includes the following:

- 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 2024 budget included \$100,000 in funding for the assessment. Facilities that are included are the Davidson Centre, Tiverton Sports Centre, Armow Hall, Brucedale Community Centre as well as Underwood Community Centre. Facilities have now been assessed, and staff are awaiting the final report.
- 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.
- Sidewalk inspections:** As per Ontario Regulation 239/02 Minimum Maintenance Standards for Municipal Highways (MMS) the standard for the frequency of inspecting sidewalks and inspecting the area adjacent to the sidewalk is to check for surface discontinuities or a highly unusual encroachments once per calendar year, with each inspection taking place not more than 16 months from the previous inspection. Sidewalk inspections are conducted through an outside consultant StreetScan using a E-scooter-based approach which captures all the necessary distresses to determine sidewalk repairs and maintenance. The system utilizes high-resolution imaging technology to collect sidewalk video, and identify distresses such as cracks, tripping hazards, surface distortions, and uplifts. Data collected is processed to assign a numeric sidewalk condition index (SCI) that enables us to prioritize sidewalk improvements. Inspections took place June of this year.
- Bridge inspections:** Bridges and pedestrian bridge (> 3 meters) inspections are conducted every other year. The 2023 budget included \$25,000 for OSIM bridge inspections. Traffic counts over bridges will also be conducted to assess usage. The next OSIM inspection is required in 2025.

Staff are in the process of completing a Bridge Master Plan to identify future infrastructure needs associated with bridges. The Master Plan process will consider a range of factors associated with each bridge, including current and anticipated traffic volumes, capacity, local transportation linkages and expected replacement costs.

The plan will also include a short-term (0-10 year) and long-term (10+ year) Capital Investment Program.

- **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 2025 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 2024 which will include foundational elements to assist staff in making decisions around fleet replacement.

Financial Strategy:

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 made 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 previously adopted the practice of an annual 3% tax rate increase dedicated to the Lifecycle Reserve Fund to fund future replacement and rehabilitation of capital and infrastructure. The annual 3% tax rate increase strategy falls short of the recommended 6.7% tax levy increase. The attached charts illustrate the impact of annually underfunding the Lifecycle and Infrastructure replacement costs.

Chart 1:

This chart illustrates the historical contributions made by the Municipality into the Lifecycle Reserve Fund for the purpose of asset management. Each budget year (with the exception of 2022 and 2024), the practice has been to increase the tax rate to act as a dedicated levy for infrastructure renewal.

Note: The 2024 budget did not include an incremental increase to fund asset management requirements. In July 2024, Council directed that 50% of the prior year operating surplus (\$375,000) be transferred to the Lifecycle Reserve Fund as a top-up, for a total contribution of \$4.73 million.

Chart 2:

This chart illustrates the elimination of the infrastructure funding gap by the year 2032, if the recommendations in the AMP Financial Strategy had been followed.

Chart 3:

This chart illustrates the impact on the annual funding gap if the Municipality continues to adopt the practice of an annual 3% tax rate increase dedicated towards the AMP until 2041.

- By 2032 the annual funding gap is estimated at \$4.1 million.
- By 2041, the annual funding gap is reduced to \$2.5 million.
- Full lifecycle funding is not achieved by 2041.

Without full lifecycle funding, asset repairs and replacements will need to be deferred.

Chart 4:

This chart illustrates the cumulative projected shortfall in funding until the year 2032, if the Municipality continues with an annual 3% tax rate increase dedicated to AMP.

- By 2032, the cumulative funding shortfall amounts to \$21 million.
- The impact of not adding an incremental increase to the annual contribution in the 2024 budget has a compounding effect.
- By not adding the incremental 3% AMP contribution of \$588,000 in the 2024 budget, the cumulative funding shortfall increased by \$5 million by the end of 2032. The cumulative funding shortfall increased from \$16 million to \$21 million.

The AMP financial strategy, if it were to be followed, would have completely eliminated the funding shortfall by 2032. As the Municipality continues to grow and acquire new infrastructure, the annual infrastructure deficit will also grow if the Municipality does not adopt a financial strategy.

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.

The draft 2025 budget will be developed using the historical approach of a 3% tax rate increase, unless Council directs otherwise. Staff has requested direction on this matter through the 2025 Budget Plan Report.

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 report

- Attachments:** AMP Financial Strategy Charts
- Prepared by:** Roxana Baumann, Director of Corporate Services
- Submitted by:** Roxana Baumann, Director of Corporate Services