



REPORT TO FINANCE AND CORPORATE SERVICES COMMITTEE

File: F06-AS
Pending #: P11/17

TO: FINANCE AND CORPORATE SERVICES COMMITTEE

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DATE: SEPTEMBER 27, 2017

SUBJECT: INFRASTRUCTURE FUNDING GAP OPTIONS (17-G-054)

RECOMMENDED MOTION

1. That the Infrastructure Funding Gap Options Report be received as information.

PURPOSE & BACKGROUND

2. Through motion 17-G-054, Council provided the following direction:
 - a) That staff in the Finance, Engineering (Corporate Asset Management) and Information Technology Departments report to the Finance and Corporate Services Committee by September 2017 regarding options to provide dynamic reporting of the City's current infrastructure funding gap to Council including any process changes and cost implications to providing that data in a more real time format. (Item for Discussion 8.2, March 20, 2017) (File: F00)
3. During the 2017 Business Plan and Budget deliberations with General Committee, staff included in their presentation a graph describing the annual infrastructure funding gap (Appendix A); as well as a graph supporting the continued need of the dedicated infrastructure renewal fund (Appendix B).
4. The City of Barrie was one of the first municipalities in Ontario to develop a Corporate Asset Management Strategy and Asset Management Plans, in 2009. Quantifying total asset investment needs, considering all lifecycle activity costs, replacement and growth is a leading asset management practice. Further, understanding the City's financial condition and ability to fund this work is a critical component of both asset management planning and financial planning.

5. Previous asset management planning analyses (2011) have estimated the backlog of all infrastructure replacement needs to be \$400+ million, and the average annual reinvestment for asset replacement to be \$86 million per year. Note that this value considers all assets (both tax and rate funded), and is based on a simple, but reasonable analysis that assumes assets will not require any rehabilitation investment until they require replacement at the end of their expected useful lives. In addition, it does not account for the additional investment required to renew and replace new assets that are constructed or acquired through growth.
6. Subsequent updates to the water and transportation asset management plans provide updated information in terms of the annual investment requirements, the current backlog, and consider growth needs. The City's asset management strategy recommends updates to asset management plans for all asset classes (wastewater, storm water, facilities, fleet, parks, etc.) over time, and each update would improve the quality of the analysis and output. Working collaboratively across departments, staff would use this output as input to a long range financial planning exercise, ultimately quantifying the overall infrastructure gap.
7. The province has recently proposed to enact Municipal Asset Management Planning Regulation in 2018, which will require municipalities to implement Strategic Asset Management Policies, and Municipal Asset Management Plans following a phased approach from 2019 to 2022. Among other requirements associated with the last milestone in 2022, is a financial strategy that contains:
 - a) Estimated capital expenditure forecasts and significant operating costs to achieve proposed service levels;
 - b) Revenue dedicated to capital financing;
 - c) Estimated capital reserve contributions and withdrawals; and,
 - d) Estimated debt service payments.

Municipalities would also be required to outline any ongoing funding shortfall that exists, and how the shortfall and any associated risks will be managed.

ANALYSIS

8. Municipalities in Ontario are challenged with many different provincial and federal reporting requirements that include; audited consolidated financial statements, modified accrual based budgeting, financial information report (FIR), waste diversion Ontario annual report, gas tax reporting, development charge (DC) background studies and related annual DC statement, water system financial plan, and asset management plans to name a few.
9. The City's investment in a new Enterprise Resource Planning System (ERP) will provide enhancements to financial reporting, creating efficiencies in completing legislated reporting needs. Along with the City's new budgeting tool Questica, staff will be better positioned to make long term financial plan recommendations more efficiently and accurately. Certain reporting, including reports related to the infrastructure gap will require effort outside of these systems, and therefore the ability to provide dynamic or real time reporting will not be available for all required or requested information without further investment in systems and data.
10. Staff monitor and assess opportunities to move to technology solutions that will drive productivity and efficiency in all areas of municipal service delivery. As asset management has become more engrained in municipal culture across North America, sophisticated software systems have been developed to support all aspects of asset management planning. Managing asset registry and condition data, risk and lifecycle analysis, and optimization of capital investment are some of the functionalities available. These functionalities all contribute to quantification of the infrastructure gap. These systems can be implemented as stand alone, or integrated with business intelligence (BI) tools that provide enhanced reporting.



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11. These systems exist to provide this functionality across all asset classes, or within a specific niche such as pavement management. Considering that the most comprehensive systems come at significant cost to implement and sustain, requiring extensive amounts of data and ongoing support, the City may wish to implement a system on an individual asset class, as a pilot project.

ALTERNATIVE

12. As this report is for information, no alternatives are presented at this time.

FINANCIAL

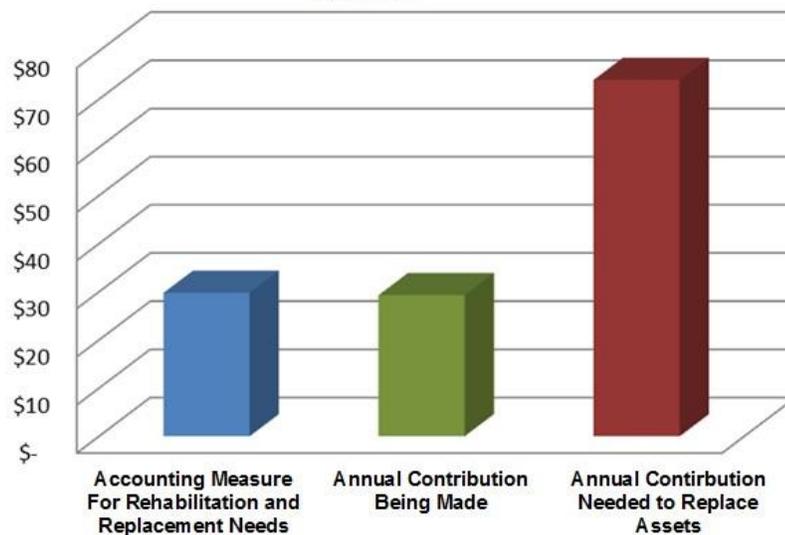
13. The City's 2016 audited consolidated financial statements identified the City owning \$2.3 billion in capital assets with accumulated amortization of \$654 million, leaving a net book value of assets at \$1.7 billion. It is important to remember accounting data is based on historical costs and do not reflect actual replacements costs.
14. As identified in the annual infrastructure gap graph in Appendix A (presented as part of the 2017 Business Plan deliberations), the City's 2016 amortization costs (historical dollars) related to existing tax rate funded assets was \$ 29.8 million compared to a contribution to the tax capital reserve, also of \$29.8 million. The graph includes an estimated annual contribution needed to replace existing assets in current dollars of \$74 million, leaving an unfunded infrastructure gap of \$44 million.
15. The annual replacement needs identified of \$74 million per year for tax related assets was used in the 2014 Financial Impact Analysis.
16. The dedicated infrastructure renewal fund graph (Appendix B) is demonstrating how continuing with the annual 1 per cent increase in the infrastructure renewal fund closes the annual funding gap over time for existing assets. As the City grows and acquires new assets, the replacement cost, and annual investment to fund replacement is expected to increase, however more complex analysis is required to quantify these amounts.

APPENDIX "A"



Annual Infrastructure Gap

Tax Supported Annual Infrastructure Gap
(\$ Millions)



To address \$45 million gap Council approved a 1% Dedicated Infrastructure Renewal Fund that's used only for the replacement and rehabilitation of Barrie's roads, bridges, buildings, and other infrastructure.

APPENDIX "B"



Dedicated Infrastructure Renewal Fund

Dedicated Infrastructure Fund Significantly Increases Transfers to Tax Capital Reserve over 10 Years

