

## Corporate Asset Management Update – Phase-In Options and Implications

### ISSUE

The City of Saskatoon (City) continues to make progress on the reporting and implementation of a Corporate Asset Management Strategy. This report provides additional phase-in options and implications to Table 2: Consolidated Funding Gap that was included in the Corporate Asset Management Plan Update report at Governance and Priorities Committee on August 19, 2019. The implications and options in this report are to support decisions made during the 2020/2021 Multi-Year Business Plan and Budget deliberations.

### BACKGROUND

On August 19, 2019, the Governance and Priorities Committee considered the Corporate Asset Management Plan Update report from the Interim Chief Financial Officer, and resolved:

“That the Administration provide additional phase-in options and implications other than Table 3 for deliberation during the Business Plan and Budget Process.”

### Current Status

As part of the Corporate Asset Management Plan Update report, an overall funding gap of \$23.80M per year was identified. This included \$13.80M for civic operations including Roadways, Water & Wastewater Systems, Transit & Access Transit Fleet, Parks, Bridges & Structures, Sidewalks and Fleet Services as well as \$10M for Saskatoon Light and Power (SL&P).

In order to address the \$13.80M funding gap for civic operations, the following potential phase-in options were provided:

Asset Class	2020*	2021*	2022*	2023*	2024*	2025*
Roadways	-	-	-	-	-	-
Water & Wastewater Systems	-	-	-	-	-	-
Transit & Access Transit Fleet	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10	-
Parks	\$0.91	\$0.91	\$0.91	\$0.91	\$0.91	\$0.91
Bridges & Structures	\$0.66	\$0.66	\$0.66	\$0.66	-	-
Sidewalks	\$0.35	\$0.35	-	-	-	-
Fleet Services	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$3.02</b>	<b>\$3.02</b>	<b>\$2.67</b>	<b>\$2.67</b>	<b>\$2.01</b>	<b>\$0.91</b>
<b>Property Tax Impact</b>	<b>1.24%</b>	<b>1.24%</b>	<b>1.09%</b>	<b>1.09%</b>	<b>0.82%</b>	<b>0.37%</b>

\*in millions and in 2019 dollars

In addition to the civic operations funding gap, the \$10M funding gap for SL&P was resolved by Governance and Priorities Committee to be addressed through a finance neutral approach. This approach includes reducing the City’s return on investment by

an amount equal to the increase in the Grant-in-Lieu and redirecting those funds towards SL&P's Asset Management Program. While this approach has no direct impact on City funding, it does redirect funds that otherwise would have been utilized to lower the property tax (grant-in-lieu revenue) towards SL&P's Asset Management Program. It is estimated that through this approach, SL&P's funding gap would be addressed by 2026.

As the funding gap for SL&P has been addressed through the previous resolution of Governance and Priorities Committee to utilize a finance neutral approach, the remainder of this report focuses on civic operations and various phase-in options and impacts to address the current asset management funding gap.

## **DISCUSSION/ANALYSIS**

There are a multitude of options that Governance and Priorities Committee could consider when evaluating how to address the current asset management funding shortfall. Outlined below are some options that could be considered to begin closing the funding shortfall over 2020-2025.

It's important to note that any progress made in appropriately funding Asset Management Plans, is good progress for the City. While the Administration has outlined some additional options, the key consideration should be focused on the overall funding gap and continuous re-evaluation of asset conditions in order to revise estimates, impacts and risk. Each one of these options have various advantages and disadvantages which are outlined below.

### Option 1 - Focus on Addressing All Asset Management Plan Funding Shortfalls

This option is consistent with what was presented to Governance and Priorities Committee on August 19, 2019, which essentially involves addressing all Asset Management Plans over the next several years. Option 1 potential phase-in is illustrated in the table provided in the previous section of this report.

The benefits of Option 1 include:

- All current asset management funding gaps will be addressed on those assets included in the plans; and
- Provides clear direction to Administration that will guide planned actions to provide the desired level of service in a sustainable way, while managing risk at the lowest lifecycle cost.

The implications for Option 1 include:

- Higher than typical property tax increases would be required over the short term; and
- There is no consideration given to other factors such as government funding which may result in more allocations than required.

Option 2 - Focus on Bridges & Structures, SL&P, and Priority Safety Issues in Sidewalks and Parks

Option 2 involves prioritizing the required asset management plan phase-ins focusing first on areas such as Bridges & Structures, SL&P and priority safety issues in Sidewalks and Parks (e.g. trip hazards or other deficiencies with the potential to cause injury to users of these assets), while Transit may be deferred until future years.

This approach would also take into consideration government funding which may provide additional time to phase-in City contributions to Asset Management Programs. A good example is Transit & Access Transit which have identified a funding gap of \$5.5M per year assuming only civic funds are available for fleet renewal. However, the Transit & Access Transit fleet is currently in line with industry best practices due to federal government funding through the Public Transit Infrastructure Funding (PTIF) Program. In addition, significant funding is anticipated over the next several years from the Investing in Canada Infrastructure Program which will be utilized to modernize the current Transit fleet and implement a Bus Rapid Transit model.

While sustainable internal Transit funding has not been established, recent federal and provincial funding, if received as expected, should maintain the fleet in line within industry best practices over the near term. The urgency for addressing this plan can be moved lower in the asset management portfolio, but does need to be addressed prior to the end of federal and provincial funding programs.

A potential phase-in for Option 2 may look like:

Asset Class	2020*	2021*	2022*	2023*	2024*	2025*
Roadways	-	-	-	-	-	-
Water & Wastewater Systems	-	-	-	-	-	-
Transit & Access Transit Fleet	-	-	-	-	-	-
Parks	\$0.175	\$0.175	\$0.175	\$0.175	\$1.01	\$1.01
Bridges & Structures	\$0.66	\$0.66	\$0.66	\$0.66	-	-
Sidewalks	\$0.175	\$0.175	\$0.175	\$0.175	-	-
Fleet Services	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$1.01</b>	<b>\$1.01</b>	<b>\$1.01</b>	<b>\$1.01</b>	<b>\$1.01</b>	<b>\$1.01</b>
Property Tax Impact	0.41%	0.41%	0.41%	0.41%	0.41%	0.41%

As outlined above, Option 2 would address Bridges & Structures and priority safety issues in Sidewalks and Parks. No phase-in for the Transit & Access Transit Fleet Asset Management Plan has been proposed as part of this option, due to the significant funding anticipated as part of the Canada Infrastructure Program.

The benefits of Option 2 include:

- Lower property tax impact than addressing all Asset Management Plans at once;
- Provides for a prioritized approach to asset management funding using a safety lens; and
- Maintains service level and manages risk with respect to safety for Sidewalks and Parks.

The implications for Option 2 include:

- No funding phase-in would be implemented for Transit, which would continue to place heavy reliance on government funding;
- The funding phase-in for Sidewalks and Parks would be phased-in starting in 2020 which means desired levels of service related to quality of life targets for these assets will take longer to realize. However, this provides time to further refine asset management data and requirements for more integrated approach to asset management across all asset class; and
- Were there a loss of Transit government funding, implications may include reduced service levels in frequency, access and reliability.

Option 3 - Focus on Bridges, SL&P, and Priority Safety and Quality of Life Issues in Sidewalks and Parks

Option 3 involves prioritizing the required asset management plan phase-ins focusing first on areas such as Bridges & Structures, SL&P, and priority safety and quality of life issues in Parks and Sidewalks.

As outlined in the previous option, phase-ins for Saskatoon Transit have been excluded due to the significant amount of funding expected as part of the Canada Infrastructure Program which should maintain the current age of Saskatoon Transit over the short to medium term.

Asset Class	2020*	2021*	2022*	2023*	2024*	2025*
Roadways	-	-	-	-	-	-
Water & Wastewater Systems	-	-	-	-	-	-
Transit & Access Transit Fleet	-	-	-	-	-	-
Parks	\$0.50	\$0.50	\$0.85	\$0.85	\$1.51	\$1.24
Bridges & Structures	\$0.66	\$0.66	\$0.66	\$0.66	-	-
Sidewalks	\$0.35	\$0.35	-	-	-	-
Fleet Services	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$1.51</b>	<b>\$1.51</b>	<b>\$1.51</b>	<b>\$1.51</b>	<b>\$1.51</b>	<b>\$1.24</b>
Property Tax Impact	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%

With Option 3, the funding gaps for Parks, Bridges & Structures and Sidewalks would be addressed first. In addition, the phase-in for Parks has been adjusted as compared to the original implementation timeline in order to smooth out the property tax impact. Reductions to the short-term Parks phase-in should not have any significant impact on the current risks associated with underfunded Parks infrastructure and will provide the Parks Division with more time to mature their current Asset Management Strategy.

The benefits of Option 3 include:

- Lower property tax impact than addressing all Asset Management Plans at once;
- Provides for a prioritized approach to asset management funding using a safety and citizen experience lens for Sidewalks and Parks;

- Bridges & Structures and Sidewalks would close the funding gap, and Parks would maintain as is in 2020 and 2021, and then start to close the gap in 2023; and
- Maintains service levels and manages risk with respect to safety and quality of life for Sidewalks and Parks.

The implications for Option 3 include:

- No funding phase-in would be implemented for Transit, which would continue to place heavy reliance on government funding;
- A majority of Parks funding would be later years of phase in however, this provides Parks time to further refine Asset Management Plans and gain more clarity on full lifecycle cost of the assets; and
- Higher property tax impact than Option 2.

While the City is making progress and the funding gap may not be noticed in the immediate future, if the gap is not addressed over time, it will continue to grow and at a faster rate. Risk will increase as the likelihood of failure becomes more likely as assets deteriorate, levels of service will trend downward as reliability and accessibility assets become more uncertain and costs will increase as more expensive treatments are required as the assets deteriorate. Understanding the options and implications now is important when making asset management decisions so we are investing in the right things at the right time to ensure long-term sustainability.

### **FINANCIAL IMPLICATIONS**

The financial implications of this report include the option for funding up to the full \$23.8M in annual funding gap towards the City's Asset Management Plans. No additional permanent full-time employee equivalents are associated with this funding option.

### **IMPLICATIONS**

There are no legal, social, or environmental implications identified.

### **NEXT STEPS**

The next step in this project is for the funding request to be considered during the 2020/21 Capital Budget deliberations in November 2019.

Administration will continue growing the maturity of the Asset Management Plans to better articulate the full lifecycle cost of assets in alignment with desired level services at an acceptable level of risk to support decision making.

### **Report Approval**

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