

Corporate Asset Management Update

ISSUE

The City of Saskatoon (City) manages over \$4.5 billion in tangible capital assets (net book value as at December 31, 2020). The Administration continues to make progress on the reporting and implementation of a Corporate Asset Management Strategy. This report consolidates the current individual Asset Management Plans and provides an update on the Asset Management Plans and identifies funding options, as included in the 2022/2023 Business Plan and Budget Options report, in order to achieve the desired level of service and performance of assets.

BACKGROUND

The Administration will or has presented individual Asset Management Plans on the asset classes listed below.

Table 1: Asset Management Plan Reporting

Asset Class	Original Report*	Updated Report*
Roadways	Aug. 12, 2013 – Council	Aug. 9, 2021 – Transp.
Water, Wastewater and Storm Systems	Dec. 7, 2015 – EUCS	Sept. 7, 2021 – EUCS
Transit & Access Transit Fleet	July 19, 2016 – Transp.	Aug. 9, 2021– Transp.
Parks	Aug. 15, 2016 – PDCS	Sept.13, 2021 – PDCS
Bridges & Structures	Nov. 14, 2016 – Transp.	Aug. 9, 2021– Transp.
Sidewalks	Nov. 14, 2016 – Transp.	Aug. 9, 2021– Transp.
Fleet Services	Nov. 14, 2016 – Transp.	Sept. 7, 2021 – Finance
Saskatoon Light & Power (SL&P)	Mar. 12, 2018 – EUCS	Apr. 6, 2021 – EUCS
Facilities	May 31, 2021 – Council	N/A

*EUCS – Standing Policy Committee on Environment, Utilities & Corporate Services

Finance – Standing Policy Committee on Finance

PDCS – Standing Policy Committee on Planning, Development & Community Services

Transp. – Standing Policy Committee on Transportation

As part of the 2020 and 2021 Business Plan and Budget Review, additional funding was allocated to the following Asset Management Plans:

Asset Class	2020 Phase-In	2021 Phase-In
Bridges	\$330,000	\$440,000
Parks	\$250,000	\$350,000
Sidewalks	\$175,000	\$250,000

CURRENT STATUS

This report provides an update on the City's individual Asset Management Plans, as well as updated information for the 2022 and 2023 Business Plan and Budget Options for the budget process.

The City continues to make strides in achieving a proactive asset management strategy. Transit and Access Transit, Sidewalks, SL&P, Parks, Facilities, and Bridges and Structures do not have adequate base funding in place to meet the targeted service levels. There are varying levels of risk and urgency associated with each as described below.

- While the Investing in Canada Infrastructure Program – Public Transit Stream (ICIP) has a funding allocation that could be used for purchasing transit buses, those funds have not been released or made available to date. Saskatoon Transit has submitted a budget option for fleet replacement for consideration in the 2022-2023 Business Plan and Budget Options package. The budget option includes \$9.0 million in 2022 for the purchase of ten hybrid buses and \$10.5 million in 2023 for the purchase of five hybrid buses and five electric battery buses. The purchase of five Access Transit buses would be \$850,000 annually in each of 2022 and 2023.

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.

- The Sidewalk Preservation Program is funded through the Paved Roadways Infrastructure Reserve. Recent funding allocations, including one-time funding, in 2020 and 2021 by City Council to support the costs associated with the level of service improvements to the sidewalk preservation program have put the program back on track to sustain a 1 in 20-year return cycle over the next four years (2021 to 2024), assuming no changes to the program and overall level of service. The Sidewalk Preservation Program will require \$150,000 in base funding in 2024 for sustained maintenance.
- SL&P has historically matched electricity rates set by SaskPower. In recent years, SaskPower's rate applications have varied considerably, both in frequency and percentage increase. A general rate increase of 5% was implemented on July 1, 2016, followed by a 3.5% increase on January 1, 2017, and another 3.5% increase on March 1, 2018. Since 2018, there have been no general rate increases other than the carbon charge implemented from the federal government's carbon tax. SaskPower has announced they do not intend to seek a general rate increase in 2021. The next rate increase will likely be implemented in 2022, four years after the last increase.

SL&P's previous asset management funding plans had assumed that rates would continue at an average annual increase of 3%. The impact of no increases has been significant for SL&P and has affected its funding plan for asset renewal.

It is very difficult to accurately project what future rate increases will be. There are significant changes occurring in the electricity industry that will undoubtedly impact rates, but SaskPower has not provided any assumptions that can be used for long-term financial projections.

The federal government's carbon tax that was introduced in 2019 has increased annually, but it does not have a significant impact positively or negatively on SL&P's finances since this affects both revenue and expenses similarly.

- Parks' required annual funding was estimated based on the estimated replacement value divided by the estimated life of each asset. Upon review of the ongoing operating and capital investments and the impact of these funding sources on the condition of the assets, a potential funding strategy was developed and presented to City Council in 2017 identifying a shortfall of approximately \$5.8 million annually. Since that time, \$950,000 of additional annual operating contributions to the Parks Infrastructure Reserve have been approved helping to reduce the funding gap to \$4.85 million. Also, in 2020 a one-time contribution of \$1.6 million in reallocation funding resulting from the Municipal Economic Enhancement program was provided to further advance the Capital Project 901 Park Upgrade, Enhancements and Repairs Project.

A phase in of \$800,000 in 2022 and 2023 is proposed to further reduce the funding gap and bring the park upgrade program closer to the level of funding required to meet the approved service level.

- The long-term Facilities Asset Management strategy considers an industry best practice rate of reinvestment. Based on the information available, an assumption of a long-term reinvestment rate for the City's facilities is 1.6%, which would indicate that funding to the Civic Building Comprehensive Maintenance Reserve contributions may be insufficient by approximately \$6.1 million per year and funding to the Facility Site Replacement Reserve may be insufficient by approximately \$0.46 million per year. Heritage facilities and sites would be an additional \$0.15 million per year. This future reinvestment rate will be confirmed upon completion of detailed condition assessment reports prior to 2024.
- As identified in the 2018 Asset Management Report, the Bridge Major Repair Reserve has been underfunded in the past. At the time of that report, the annual funding was \$3.18 million per year. As of 2021, the annual operating funding has increased to \$4.234 million. As per City Council resolution, the target contribution is to fund \$5.80 million per year with no requirement for one-time contributions.

The increased funding to date allowed for the planning of major rehabilitations of multiple overpasses that need reactive rehabilitations to ensure the condition rating of these structures is elevated to a rating of “B”. However, the program currently has a funding shortfall which will require either one-time funding for projects and/or an increase to the long-term funding requirements.

The current base funding is forecasted to be sufficient for the 2022 and 2023 program plan, however, work planned on the Broadway and University Bridges (substructure) within the next ten years are uncertain until detailed design work can be completed. This work may require one-time funding or further delay of other projects to allow for the work to be completed.

The Administration will continue program improvements, explore alternative funding sources and provide financial updates when future maintenance schedules and timing are changed due to delays or revised condition data.

DISCUSSION/ANALYSIS

Overall, the City’s consolidated funding gap is estimated at \$22.78 million per year for civic operations and \$12.0 million for SL&P. This is an increase from the previously reported \$13.8 million funding gap presented at the 2019 Business Plan and Budget Review meeting. This increase results from a combination of both increases and decreases which are summarized as follows:

- In 2020/2021 Parks, Bridges and Structure, and Sidewalks consolidated annual funding gap decreased by \$1.8 million in part due to funding allocations received in 2020 and 2021 and due to continued refinement of condition assessment and funding gap data.
- SL&P’s funding gap has grown from \$10.0 million to \$12.0 million; key assumptions, such as electrical rate increases, have not been realized.
- Facilities’ annual funding gap of \$6.68 million is being included for the first time in the consolidated report and represents the majority of the increase.
- Transit’s funding gap has grown from \$5.50 million to \$9.6 million. The increase is a result of the fleet’s transition from diesel to hybrid /electric. In addition, Investing in Canada Infrastructure Program funding is unknown as it has not been released or made available to date.

An overview of the consolidated funding gap and desired performance included in the individual Asset Management Plans are shown in Table 2.

Table 2: Consolidated Funding Gap

Asset Class	Desired Performance	Expenditure Level	Annual Funding Gap (in millions)
Roadways	PCI rating of 80-85 (Good)	B	-
Water, Wastewater & Storm Systems	Good	B	-
Transit & Access Transit Fleet	Transit – 7-yr. avg. age Access – 3-yr. avg. age	B	\$ 9.60
Parks	Good	B	\$ 4.85
Bridges Structures	Good	B	\$ 1.50
Sidewalks	Satisfactory SCI rating of 70 to 85	B	\$ 0.15
Fleet Services	Good	C	-
Saskatoon Light & Power	Good	B	\$12.00
Facilities	Good	B	\$ 6.68
Total			\$34.78

In order to achieve the desired performance and associated expenditures levels shown in Table 2, a potential phase-in plan would include the extension of a dedicated infrastructure levy to improve the levels of service for identified assets.

The Governance and Priorities Committee will be able to adjust the corporate asset management strategy when considering the 2022/2023 Business Plan Options report to:

- adjust targeted performance;
- defer funding phase-ins until future years;
- use any additional funding identified through the 2022/2023 Business Plan Options; and/or
- phase-in funding over a longer or shorter time period.

While current asset performance continues to improve in many areas, it is important to note that asset categories like Transit and Access Transit, Sidewalks, SL&P, Parks,

Facilities, and Bridges and Structures-continue to be underfunded for the approved levels of service. While asset conditions will not be significantly impacted in the short term, there are risks to underfunding over the long term, such as:

- continued reliance on one-time funding sources, such as the Investing in Canada Infrastructure Program which may not be reliable in future years;
- continued decreases in condition that may result in unsatisfactory asset performance or potential failure; and
- potential increased costs over the long term for assets where rehabilitation is deferred past optimal intervention time. The Administration will continue to seek one-time funding, if available, through City Council or other potential grant opportunities, for any significant situations of this nature.

Because of significant increases to asset investment over the past decade, the City is not faced with immediate significant challenges. Regular performance measurement and reporting will continue which will ensure City Council is fully informed of the condition of the City's key assets.

NEXT STEPS

The 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 of services at an acceptable level of risk to support decision-making.

REPORT APPROVAL

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