

## DECISION REPORT

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# Corporate Asset Management Business Line Budgetary Information

### ISSUE

As the City of Saskatoon (City) heads into its planning for the 2024 and 2025 Business Plan and Budget Cycle, there continues to be several budgetary pressures the City is facing. This report will provide information and Administrative recommendations on the Corporate Asset Management Business.

This process has been established so that City Council can provide early direction to the Administration, on what to include in the 2024/2025 Preliminary Business Plan and Budget which will be considered by City Council in November 2023 during the 2024/2025 Business Plan and Budget deliberation meeting.

### BACKGROUND

At its March 15, 2023 meeting when considering the [2023-2025 Budgetary Pressures and Trends](#) Report, Governance and Priorities Committee (GPC) resolved in part:

“That Administration report back on a potential special budget meeting process to address some of the budgetary challenges and pressures for the upcoming two-year budget cycle. That this report include recommendations on using the existing Governance and Priorities Committee/Finance Committee meeting schedule vs. having special budget/Finance committee meetings and recommendations for organizing these special budget meetings based on departmental budgets or based on service lines or some combination.”

At its April 12, 2023 meeting when considering the [2024/2025 Business Plan and Budget Process Report](#), Governance and Priorities Committee (GPC) resolved:

“That Option 3 be approved, and the City Clerk’s office be directed to schedule Special Budget Meetings for the presentation of Business Line-based reports if the Governance and Priorities Committee Capacity does not exist as outlined in the April 12, 2023 report of the Chief Financial Office.”

### CURRENT STATUS

The multi-year business plan and budget process includes the following key steps:

1. Develop the cost to maintain existing services considering city growth, inflation pressures, and updated revenue estimates. This step is also used to present and discuss required corrections of base budgets and phase-in of funding plans.
2. Provide a summary of the information from Step 1 to GPC.
3. Use cross-divisional teams to discuss City Council’s strategic priorities and develop options to achieve these priorities.
4. Present a list of Business Plan Options to City Council for prioritization.

## DISCUSSION/ANALYSIS

Each business line report presented through the Governance and Priorities or through the Special Budget Meetings will have the same general outline to provide information to City Council. The categories in each report will be:

1. Expenditure Overview
2. Service Level Review
3. Pandemic Challenges
4. 2024/2025 Pressures
5. Potential Options

Additionally, if the business line has Business Plan and Budget Options for operating that will be presented at the August 2023 GPC meeting there will be a summary of these items that are not included within the 2024 and 2025 Budget Status Update report that was presented at the June 14, 2023 GPC.

Appendix 1 includes the information for the Corporate Asset Management business line. The Corporate Asset Management business line includes:

- City Accommodations
- Facilities Management
- Fleet Management

## OPTIONS

Appendix 1 provides detailed information regarding options available to Committee:

**Option 1** – Reduce Snow Removal at Civic Facilities

**Option 2** – Transfer of external lease savings

**Option 3** – Reduce Inflationary Impact of Fleet Replacement Reserve

**Option 4** – Defer New Property Tax Funded Positions

## RECOMMENDATION

That the Governance and Priorities Committee direct Administration to include the following options in the 2024/2025 Preliminary Business Plan and Budget:

1. Option 1 – Reduce Snow Removal at Civic Facilities

## RATIONALE

The provided recommendations aim to strike a balance in addressing the significant cost pressures the City is facing in 2024/2025 with a more reasonable property tax increase. While there are service level implications to the provided recommendations, Administration believes it provides reasonable options to reduce financial impacts in the 2024/2025 budget.

**FINANCIAL IMPLICATIONS**

The financial implications of this business line will be deliberated at the 2024/2025 Business Plan and Budget Deliberations meeting.

**OTHER IMPLICATIONS**

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

**NEXT STEPS**

Any direction from Committee on this report will be incorporated into the 2024/2025 Business Plan and Budget process. Decisions for 2024/2025 Business Plan and Budget will be made by City Council during the budget deliberation meeting which will be held on November 28-30, 2023 where the budget implications of all business lines will be deliberated.

**APPENDICES**

1. Corporate Asset Management Business Line

**REPORT APPROVAL**

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**Corporate Asset Management Business Line**

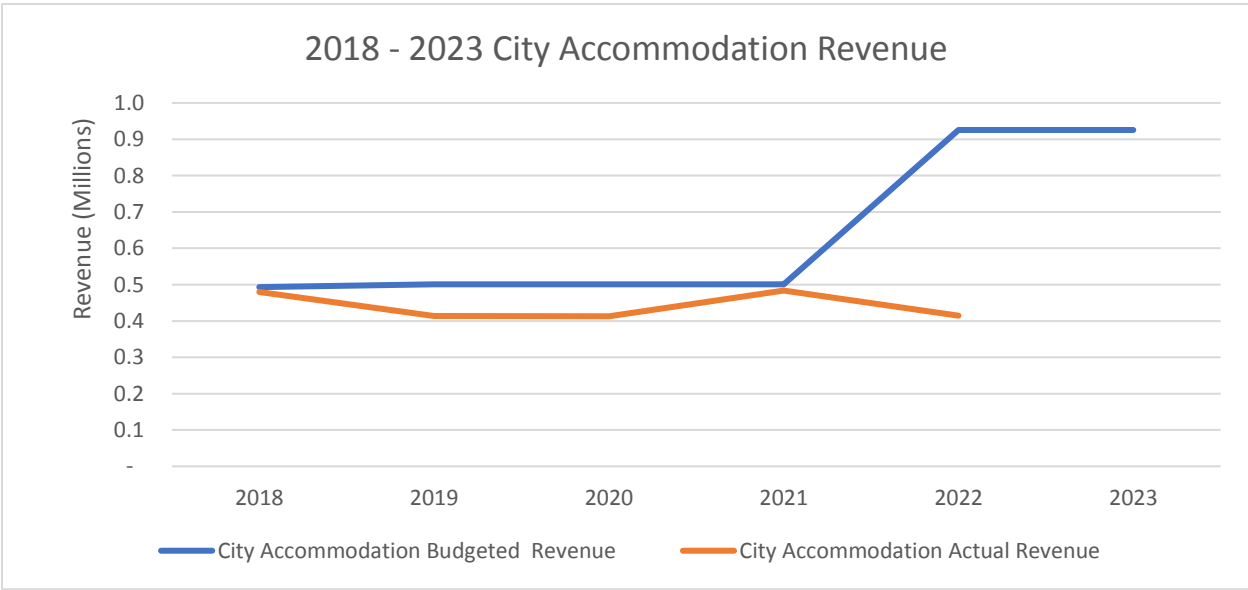
The 2023 Budget for the Corporate Asset Management Business Line included \$15.58 million in expenditures and \$1.0 million in operating revenues. The remaining costs of \$14.58 million are funded by general revenues including property taxes.

**Revenue Overview**

In 2023 the Corporate Asset Management Business Line was budgeted to generate \$1.0 million in operating revenue. \$0.93 million comes from the City Accommodation Service line, which is approximately 93% of all operating revenue in this Business Line. A full breakdown of operating revenue can be seen below.

<b>Service Line</b>	<b>2023 Op Rev (in millions)</b>	<b>% of Overall Op Rev.</b>
City Accommodation	\$0.93	93.0%
Facilities Management	\$0.07	7.00%
Fleet Services	\$0.00	0.00%
<b>Corporate Asset Management Business Line</b>	<b>\$1.00</b>	<b>100.00</b>

As outlined above City Accommodation Revenue is the largest operating revenue source in this Business Line, accounting for management of the leasing of accommodation space required by various civic departments from external sources.



The largest unfavorable variance occurred in 2022 where actuals compared to budget had a difference of approximately \$0.50 million. This was due to collecting less lease revenue than anticipated due to vacant leasable space. The majority of the remaining external tenant’s leases are not being renewed and the available space will be occupied by City departments reducing future revenue projections for the building.

### **Expenditure Overview**

The service line with the largest expenditures is Facilities Management (\$14.72 million), which make up 94% of all expenditures within this Business Line. An overview of all the service lines 2023 operating expenditures can be seen below:

<b>Service Line</b>	<b>2023 Op. Exp. (in millions)</b>	<b>% of Overall Op. Exp.</b>
City Accommodation	\$0.86	5.51%
Facilities Management (note 1)	\$14.72	94.49%
Fleet Services (note 2)	\$0.00	0.00%
<b>Corporate Asset Management Business Line</b>	<b>\$15.58</b>	<b>100.00%</b>

Note 1 – Facilities Management is inclusive of costs recovered from other business lines and departments that utilize their services. Facilities Management, including Energy Management, was budgeted at \$52.6 million in 2023.

Note 2 - Fleet Services shows \$0 as fleet expenditures are cost recovered amongst the business line and departments that utilize their services to more accurately reflect the total cost of police, roadways, Saskatoon light and power, etc. The City's total fleet cost in 2023 was budgeted at \$27.3 million.

Another way to look at this information is by Budget Category. As seen below most expenditures in the Corporate Asset Management Business Line are for Wages & Benefits (30%), Contracted & General Services (30%) and Transfers to Reserves/Capital (23%). Note for this breakdown cost recoveries of \$65.3 million were removed to get a more accurate breakdown of expense categories.

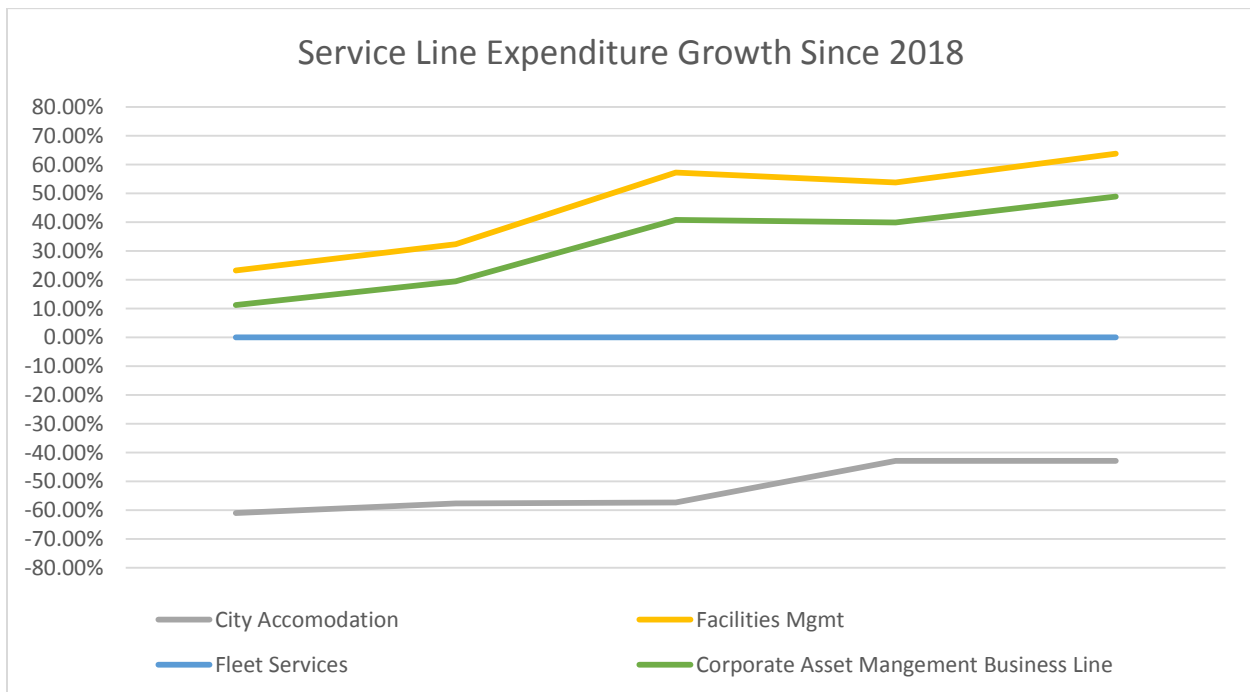
<b>Budget Category</b>	<b>2023 Budget (in millions)</b>	<b>% of Overall Expenses</b>
Wages & Benefits	\$24.23	29.97%
Contracted & General Services	\$23.90	29.56%
Utilities	\$6.00	7.42%
Materials Goods & Supplies	\$7.99	9.88%
Transfers to Reserve/Capital	\$18.48	22.86%
Finance Charges	\$0.06	0.09%
Other Expenses	\$0.17	0.22%
<b>Total Expenditures</b>	<b>\$80.84</b>	<b>100.00%</b>
Plus Cost Recoveries	(\$65.26)	
<b>Corporate Asset Management Business Line</b>	<b>\$15.58</b>	

A couple of additional key observations are:

- Fleet Services is a self-balancing service line, meaning any expenses they incur are offset by cost recoveries both through property tax and non-property tax supported business lines, resulting in a nil bottom line. Therefore, total expenses in each budget category are higher than the overall expense total, where the cost recovery of \$65 million has been applied. For 2023 Fleet Services has budgeted for \$27 million in expenses, offset completely by cost recovery of \$27 million.

- 65% of all expenditures, excluding cost recovery for the Corporate Asset Management Business Line relate to the Facilities Management Service Line and includes \$17 million for staff wages, \$18 million for contracted services, \$6 million for utility costs and \$11 million for contribution to reserves.
- 72% of all Wages & Benefits for the Corporate Asset Management Business Line belong to the Facilities Management Service Line. This includes 189.19 FTE's that support building operations and maintenance for City buildings and structures. Fleet Services has 67.2 FTE's that provide equipment services for the City's vehicles and equipment fleet.
- 100% of all transfers to reserve/capital for the Corporate Asset Management Business Line are for Facilities Management (60%) used for cost of repairs to the City's buildings and structures and Fleet Services (40%) service lines used for replacement or major repairs of civic vehicles and equipment.

The expenditures in the Corporate Asset Management Business Line have grown by 48.91% over the past five years for an average of 9.78% per year. For context, Saskatoon's population growth ([Per Stats Canada Table 17-10-0142-01](#)) plus Consumer Price Index Inflation ([Per Stats Canada Table 18-10-0005-01](#)) over this same period was 26.69% or 5.34% per year. A graphical overview of each service lines expenditure growth can be seen below:



The service lines that have seen the largest expenditure growth over the past five years (greater than 20%) include:

- 63.83% or \$5.7 million increase in Facilities Management from 2018 to 2023.
  - \$2.0 million added in the 2021 approved budget resulting from an increase in expenditures for additional cleaning supplies and custodial staff due to

the additional sanitation requirements for COVID-19. About \$1.35 million was removed from the 2022 budget as planning and scheduling efficiencies were realized and peak pandemic cleaning service levels were reduced.

- Other factors contributing to the increase include inflationary factors for increasing utility rates, growth increases due to increased staff compensation costs of maintaining City Facilities, increasing asset base such as spray pads, playgrounds, additional buildings and increased contributions to Reserve caused by both increasing asset base and an increase in building valuations.
- -42.80% decrease in City Accommodation from 2018 to 2023.
  - In 2018 City Accommodation was budgeted to incur \$1.5 million in expenses, whereas in 2019 the anticipated expenses were \$0.59 million with steady minimal increases thereafter. This original decrease was due to the transfer of Civic Square East building expenses to Facilities Management budgets.
  - The largest jump (after 2018) relates to an increase in the 2022 budget of 217K (34%) mainly due to an increase in property taxes and an additional transfer to reserve to repay the Property Realized Reserve for the purchase of 145 1<sup>st</sup> Ave, which is offset by the revenue generated from external leases in the building.

### **Service Level Overview**

Service levels for custodial services vary among facilities and are typically outlined in a Service Level Agreement with the client.

The investment for the Asset Management Plan for civic facilities is outlined in the Capital Reserve Bylaw No. 6774 for the Civic Buildings Comprehensive Maintenance (CBCM). The bylaw states that CBCM reserve shall be funded annually from the City's Operating Budget in an amount equal to 1.2% of the appraised value of a building as determined by the City's insurance schedules. It also states that the reserve shall be funded by an initial one-time provision based on the assessed value of the building from the City's Operating Budget with respect to each building that becomes part of this Reserve. A financial update on the status of investment was provided in June 2023 and can be found at the following link. [Facilities Asset Management Plan Update](#)

Fleet Services manages the maintenance of its assets using an electronic fleet management system. Each unit is assigned a preventative maintenance schedule once it is put into service based on Original Equipment Manufacturer (OEM) recommendations. From these set parameters, the unit is then monitored based on hours or kilometers used to determine the preventative maintenance schedule. The service life of each unit is determined based on the hours or kilometers used, condition of the asset and at which point it would be replaced at its optimum point based on its

economic lifecycle, which is before the equipment becomes more costly to maintain. The Fleet Services Asset Management Plan Update was provided in August 2023 and can be found at the following link. [Fleet Services Asset Management Plan Update](#).

The Radio shop maintains the City's radio communications infrastructure that is utilized by Police, Fire, Transit, and other operational areas. The infrastructure supported by the radio shop includes radio systems, as well as the network infrastructure between and on sites to support dispatch services, data logging and connectivity. The current service level provides 24/7 on-call support with 30 minute in-site response time.

### **Pandemic Challenges**

Facilities Management adjusted its service levels to adapt to the changing pandemic requirements to ensure the health, safety, and well-being of City employees, its occupants and visitors in our facilities.

Key pandemic challenges faced by Facilities Management included:

- Introduction of health and safety protocols to minimize the risk of virus transmission. Measures such as regular sanitization of surfaces, installation of hand sanitizing stations, mandatory mask-wearing policies, physical workstation separation and social distancing guidelines.
- Increases in cleaning and disinfection frequency and intensity. Facilities allocated additional resources for cleaning staff, supplies, and equipment to maintain a safe environment.
- Adequate ventilation and air quality were critical in reducing the potential spread of the virus. HVAC systems were assessed and upgraded to ensure proper ventilation and air filtration.
- Support of remote work policies along with accommodation of these changes and workspaces to support physical distancing and remote collaboration.

Most operations have resumed to pre-pandemic service levels. However, ongoing evaluation of services will continue to ensure the safety and well-being of occupants and visitors to City facilities.

### **2024/2025 Pressures Included in the Budget Status Update**

While the Administration is still in the process of quantifying the exact pressures that this Business Line is expected to experience in 2024 and 2025, some of the known pressures include:

- An increase to the CBCM program of \$671,500 in 2024 and \$402,900 in 2025 as part of the phase-in strategy to re-establish CBCM's funding contribution to its 2021 level of .98% of assessed building valuations to support asset management of corporate facilities.
- Net utility rate increases of \$523,300 in 2024 and \$368,100 in 2025 are expected due to expected Water & Sewer and Electricity increases and offset by expected lower Natural Gas rates.
- Inflationary costs of \$152,000 in 2024 and \$20,800 in 2025 to support the contract renewal for the Corporate Radio Trunking System used by Saskatoon Fire, Police, Transit and other operating departments.



- Increased costs of \$30,000 in 2024 for anti-virus and enhanced air filters.
- Addition of new or improved existing facilities and the resources required to operate and maintain those facilities, including maintenance and CBCM contributions. These include Victoria and Brighton park improvements, addition of the Material Recovery Center, Fire Halls and the SPCA. Detailed FTE breakdown is shown in Option 4 below.
- Inflationary pressures in materials and supplies to support preventative maintenance and operations.

**Additional 2024/2025 Pressures Not Included in the Budget Status Update**

The budget status update presented is Administration’s estimate on the costs to maintain existing services when considering growth, inflation, and base budget adjustments. The previous section outlined some of the significant pressures included with that estimate, however, it is important to note there are additional pressures required to move towards achieving the City’s Strategic Priorities, address growing service level expectations such as asset management funding gaps and respond to everchanging community needs, that were not included. These options will be quantified and presented in a future report which will give City Council the option to discuss and potentially add these items to the 2024/2025 Budget. For the purpose of this report a high-level contextual overview of some of these key pressures not included in the budget status update can be seen below. The most prevalent pressures are from:

- Additional funding to increase the CBCM’s annual contribution to \$2,300,000 in 2024 and \$150,000 in 2025 would be required to meet the Capital Reserve Bylaw’s rate of 1.2% of insured valuations for CBCM eligible facilities.
- Additional public washrooms inspections that are currently occurring daily to ensure safe and clean facilities. Three additional checks per day are required to alleviate improper use resulting in damage and repairs. Funding of \$100,000 in 2024 and \$5,000 in 2025 would be required for both the additional building checks and costs to complete repairs.

**Potential Options:**

If all of the options presented in this report along with the options previously presented in the [2024/2025 Budget Inflationary & Phase-in Decisions](#) report (Option 2) were approved it would reduce the Corporate Asset Management Business Line by the following:

<b>Corporate Asset Management 2024/2025 Budget Options Impact</b>		
	<b>2024</b>	<b>2025</b>
Option 2 from the <a href="#">2024/2025 Budget Inflationary &amp; Phase-in Decisions</a> Report	\$2,014,500	\$(402,900)
Recommended Options included in this report	\$50,000	
Additional Options included in this report	\$725,300	\$382,400
<b>Total Options</b>	<b>\$2,789,800</b>	<b>\$(20,500)</b>

At its meeting held on July 25, 2023, the Governance and Priorities Committee (GPC) considered the 2024/2025 Budget Inflationary & Phase-In Decisions report and approved Option 2. This option funded 25% (\$671,500) of the inflationary impacts for CBCM in 2024 and phased in the remaining amount over the following five years (\$402,900 per year).

An overview of all recommended options as well as options that could further reduce the funding gap are provided below.

### **Recommended Options**

#### **Option 1 – Reduced Snow Removal at Civic Facilities**

Once a parking lot is cleared, snow is typically removed from a parking lot to restore all parking stalls. Eliminating the removal of the snow piles could result in a savings of \$50,000 annually. This would result in the temporary loss of a few parking stalls, depending on level of snow accumulation.

### **Options that Could Further Reduce the Funding Gap**

#### **Option 2 – Transfer of External Lease Savings**

Savings from external lease expenditures were previously approved by City Council to repay Property Realized Reserve (PRR) for the acquisition of 145 1<sup>st</sup> Ave. These savings could be transferred to general revenues to offset new budgetary pressures. The 2024 savings are projected to be \$202,200 with an additional \$84,400 in 2025. If approved PRR will not receive annual payments to reimburse for the purchase of the property and will only be fully repaid once the building is sold.

#### **Option 3 – 50% Reduction of Inflationary Impact to Fleet Replacement Reserve.**

Fleet Services has a \$100,800 inflationary impact in 2024 and a \$87,700 in 2025 for increased costs of replacing civic vehicles within the Civic Vehicles and Equipment Asset Reserve. Fleet services continually monitors every asset's life cycle closely in order to estimate the amount of reserve contribution required to ensure units are replaced in a timely manner. Early estimates of the five-year replacement schedule may have a larger than normal reserve contribution required in the 2026/27 budget cycle due to uncertainties in the current automotive industry. Reducing the current inflationary amounts will even further put additional strain on the reserve, causing assets to be kept longer than their useful life, increasing maintenance costs and potentially impacting services within the Roadways Programs, Snow and Ice, Sweeping, Police Services and all other program areas which rely on Fleet Services for their vehicles.

#### **Option 4 – Deferral of New Property Tax Funded Positions**

4.a – Fleet Services has 1.00 FTE in 2024 for a new Mechanic Supervisor position for \$50,800 (mill-rate portion supporting position) in order to provide adequate operational support to cover the current gap of required supervisory and operational duties of the mechanical group. This resource would be dedicated to the SPS units.

4.b – Fleet Services has 1.00 FTE in 2025 for a police mechanic for \$47,600 (mill-rate portion supporting position) and 1.00 FTE in 2025 for civic vehicles mechanic for

\$47,600 (mill-rate portion supporting position). Fleet Services has seen a growth and complexity in units required by the operational groups in which Fleet supports. The demands have created a gap in being able to deliver all the required preventative maintenance items on units to ensure vehicles are operated efficiently and safely. Risks of not including these positions include potential delays in units being available to deliver the required services which the operational groups rely on.

4.c – Facilities Management has 2.50 FTE's in 2024 for custodial support for Material Recovery Centre for \$133,600 (mill-rate supporting position - \$53,500 per FTE). These positions are required to provide custodial services for the new facilities 364 days per year. Risks of not including these positions is that existing custodial resources from other facilities will need to be re-assigned, reducing custodial service levels of other existing facilities.

4.d – Facilities Management has 1.00 FTE in 2024 and 1.00 FTE in 2025 for custodial support for City Yards for \$53,500 in each year (mill-rate supporting positions). These positions are required to provide custodial services at various facilities throughout City Yards. Prior to the pandemic, custodial services were contracted to a third party. Funding for the service was previously unbudgeted and was typically funded through savings in other areas. During the pandemic, these services transitioned to Facilities Management, which resulted in higher quality of service. Risks of not including this position is that existing custodial resources from other facilities will need to be re-assigned, reducing custodial service levels of other existing facilities.

4.e – Facilities Management has 1.00 FTE in 2024 for Building Operator for \$85,200 (mill-rate supporting position) to support the addition of new facilities including Material Recovery Centre, Fire Hall 5, former Fire Halls 3 and 5, as well as other existing facilities that did not previously have support, including City Yards and pound. Risks of not including this position is that preventative maintenance would not be completed and/or existing Building Operator resources from other facilities will need to be re-assigned, reducing overall maintenance levels of other facilities, potentially impacting integrity of the facilities or increased wait times to rectify issues.

4.f – Facilities Management has 1.00 FTE in 2024 for a Trades position for \$99,400 (mill-rate supporting position) to support Material Recovery Centre, former Fire Halls 3 and 5, as well as other existing facilities that did not previously support, including City Yards and pound. Risk of not including this position is that these buildings will not be adequately maintained to prevent deterioration.

4.g – Facilities Management has 0.5 FTE in 2025 for Radio Shop Coordinator for \$62,000 (mill-rate supporting position) to support project and service management work for the City's radio communications infrastructure. The risk of not including this position would mean reassigning this work to technicians resulting in longer technical support response and project implementation timelines.