



The Corporation of the City of Courtenay

Staff Report

To: Council

File No.: 05330-01

From: Director of Operational Services

Date: May 22, 2024

Subject: Sustainable Infrastructure Investment Plan

PURPOSE: To seek Council's approval of the Sustainable Infrastructure Investment Plan (SIIP) and direction to implement the Sustainable Infrastructure Investment Plan by including the recommendations of the SIIP in the City's long term financial planning model beginning in 2025.

BACKGROUND:

In June 2015 Courtenay adopted **Asset Management Policy No. 1670.00.02** which sets guidelines for implementing organization-wide Asset Management processes to meet the asset-intensive sustainable service delivery needs of the City. One of Council's 2019 – 2022 Strategic Priorities was to focus on asset management for sustainable service delivery under the guiding principal to proactively plan and invest in our natural environment. In November 2019, **Asset Management Bylaw No. 2981, 2019** was adopted which established an Asset Management Program with a directive to establish and maintain Asset Management Plans. The Sustainable Infrastructure Investment Plan is a direct outcome of Council's 2021-2022 Strategic Priorities Update and is the culmination of several years of work combined to provide a long-term spending and funding plan for the City of Courtenay to achieve financial sustainability.

During the 2024-2029 financial planning process the contributions to various reserves for infrastructure renewal was recommended for inclusion. The Transfer and Reserves section of the 2024-2028 General Fund Financial Plan staff report recommended the continuation of annual contribution amounts to various reserves such as the Machinery and Equipment, the New Works and the Infrastructure Renewal Reserves. These reserves provide funding for future capital projects and in some cases operating projects. The use of reserves for capital projects can help offset borrowing that might be needed for larger projects and it also contributes to smoothing of annual tax levy.

Reserve transfers can be broken into two groups, externally funded and internally funded. Externally funded reserves come from specific external funding sources like Community Building fund, traffic fine revenue and LGCAP funds. Internally funded reserve contributions come the City's own source of funds.

While the City's reserve transfers are projected to grow over the next five years, the majority of this growth is due to the Sustainable Infrastructure Investment Plan, which is equivalent to a cumulative 1.5% of prior year's tax revenue being contributed to reserve. This increased contribution aims to create long-term reserve stability while simultaneously closing the infrastructure funding gap.

DISCUSSION:

The estimated full replacement value of Courtenay's infrastructure assets is approximately \$1.0 billion (in 2022 dollars) including linear, vertical and natural assets; e.g. facilities, parks, fleet, water system, sanitary and drainage sewers (wastewater) and the transportation network. The majority of the City's asset value is comprised of linear assets including; i.e. water, wastewater, and roadway infrastructure assets.

Approximately 7.4% or \$82 million of the City’s assets are considered beyond their functional useful lives. Functional life refers to the time the City is able to keep the assets in service and operational with little to no reactive intervention for maintenance. Generally, functional lives are often longer than the engineered life expected at the time of installation. Nonetheless, the infrastructure backlog continues to grow due to underfunding renewal, with only \$16 million in reserve accounts for asset renewal. This backlog could grow to \$246 million if left uncorrected over the next 20 years.

In addition to the infrastructure backlog, when assets are beyond their functional useful lives, they tend to fail more frequently which can lead to an increase in annual operational and maintenance costs. These costs can take the form of reactive repair and maintenance; e.g. water service leaks or main breaks, roads with severely cracking pavement or potholes, or civic facilities that are more expensive to maintain. One way to address this backlog is through ongoing condition assessments and prioritization of capital projects to effectively manage risks, however, without establishing a long-term plan for a sustainable future, the City may fail to ensure there is adequate and available funding for the renewal of its assets and the preservation of its services.

Based on condition assessments and using a practical risk tolerance approach, the following infrastructure service lives and sustainable funding levels were determined:

Major Asset Category	Sustainable Funding	Current Funding	Annual Funding Gap
Stormwater	\$3.0M	\$0.3M	\$2.7M
Transportation	\$3.4M	\$2.5M	\$0.9M
Facilities	\$1.3M	\$0.6M	\$0.7M
Fleet and Equipment	\$1.1M	\$0.6M	\$0.5M
Parks and Recreation	\$0.6M	\$0.3M	\$0.3M
Sub total General Funding	\$9.4M	\$4.3M	\$5.1M
Water	\$2.8M	\$0.7M	\$2.1M
Wastewater	\$2.6M	\$0.9M	\$1.7M
Sub total Utilities Funding	\$5.4M	\$1.6M	\$3.8M
Total Funding	\$14.8M	\$5.9M	\$8.9M

Table 1. Current and Sustainable Annual Funding by Asset Class

Historically, the City has not collected enough revenue to fund the infrastructure renewals required to sustain its in-service infrastructure. This backlog and its future additions or unfunded renewal, ultimately competes for funding with annual planned expenditures and future capital investments. It should be distinguished that this funding plan does not include future infrastructure. Future infrastructure can include upgrades related to master plans, requirements from regulatory authorities, increases to levels of service, or annual operational cost escalations. Instead, these types of infrastructure investments are recommended to be funded via a combination of future borrowing, grant funding, and annual taxation.

The Sustainable Infrastructure Investment Plan (SIIP) examines the City’s spending needs for its immediate infrastructure renewal needs and available funding for the next 100 years. The SIIP aims to correct the financial sustainability funding gap of \$896 million between 2023 and 2122, by introducing an annual reserve contribution in the form of a 1.5% cumulative tax increase (based on annual taxation), which will compound over the next ten years. While the 1.5% renewal contributions will be dedicated to general fund renewal

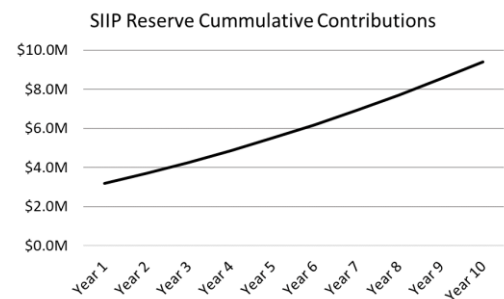
(e.g. roads drainage, parks, facilities, etc.), a parallel renewal contribution for water and wastewater utilities will be funded through a concurrent water and sewer rate review.

This sustainability gap cannot be closed solely by utilizing existing reserves, borrowing, or applying for grants. Financial and operational policy changes as well as an enhanced revenue strategy are needed. As discussed, this will involve not only tax and rate increases, but a combination of adjustments to investment policy, analysing levels of service and risk management, as well as adjustments to financial management. Examples that have been contemplated include converting obsolete debt servicing budgets to infrastructure replacement reserve funding, and using non-market change revenue¹ (revenue from new development) to fund the infrastructure reserve.

Key Recommendations

The SIIP has a number of recommendations for closing the sustainability gap:

Increase funding to sustainable levels – This strategy is to commit to a cumulative contribution to a Sustainable Infrastructure Investment Plan renewal reserve on an annual basis for ten years to increase infrastructure renewal funding to long-term sustainable funding levels. This reserve could take the form of funding the existing Asset Management Reserve, however, as money is collected, it is spent on renewal. The cumulative nature of the contribution means each successive year’s contribution will build on the foundation of previous year’s contributions.



The recommended contribution for a SIIP reserve is below:

	Recommended Option	2023 to 2024 \$ Impact on Average Valued Home
General Taxation	1.5% for ten years	\$25

Convert obsolete debt servicing budgets to infrastructure replacement reserve funding. Funds used to service debt payments for infrastructure projects would be paid into a capital reserve for future renewal.

Utilize Non-Market Change Revenue to increase infrastructure replacement reserve funding until the annual funding gap is closed. Increased tax and rate revenue from City development growth would be paid to a capital renewal reserve for the replacement of development-contributed assets. In 2024, this non-market change revenue was contributed to the Sustainable Infrastructure Investment Reserve as the 1.5% contribution.

Integrate lifecycle costing in the City’s decision-making in the following ways:

- Amend the Purchasing Policy to consider lifecycle costing when evaluating procurement decisions;

¹ Non-market change revenue is the additional revenue generated by the assessment growth as a result of new construction or property class change. This revenue varies from year to year and is dependent on construction and development activity.

- Require a lifecycle costing analysis to be conducted when new capital expenditures are considered;
- Require a lifecycle costing analysis to be carried out for Council when considering rezoning, subdivisions, or other forms of development applications;

Procurement Policy No. 1200.00.02-CP, 2023 was updated to include a policy statement identifying lifecycle cost as a consideration in determining award of goods and services.

Align long-term cash flows with the investment portfolio/horizon. Aligning the City’s investment portfolio with long-term cash flow projections will allow for the highest investment return. Investment returns can significantly reduce the City’s need to raise taxes and utility fees to fund infrastructure replacement.

Investing Policy No. 1860.00.01-CP, 2022 was updated to direct the City to invest its funds in a manner that will provide for the optimal blend of security, risk-adjusted returns, while meeting current and future cash flow demands.

Update the DCC program. There has been significant growth in the City since the last DCC bylaw was written, and an update to the DCC program is needed. The DCC program is currently under review, with a bylaw replacement expected in late 2024 or early 2025.

Future Considerations

Establish equitable infrastructure renewal contributions for each asset class. Endeavour to fund infrastructure renewal for each asset category (Roads, Buildings, Parks) based on, for example, the relative overall value of the asset. An asset class renewal reserve could be used if more funding is required in a specific year for a particular project.

Strive for Efficient Capital Procurement and Delivery. It is paramount the City take every opportunity to look for efficiencies in delivery of its capital program. The City is making strides on an annual basis to advance the adoption of budgets to earlier in the year. The 2025 financial plan is expected to be approved by late 2025.

Complete a strategic analysis of current service levels. Increasing revenues can help, but there is a threshold of affordability for taxpayers. Therefore, a strategic analysis of current levels of service is required.

Develop a policy for borrowing versus pay-as-you-go. While borrowing can help address short-term cash flow challenges, developing a policy for borrowing versus pay-as-you-go should be considered. The goal of the Sustainable Infrastructure Investment Plan reserve is to provide significant annual funds for infrastructure renewal; as money is collected, it is spent on renewal. Major capital investments for building renewals or upgrades could be funded through several years of saving or one-time borrowing.

POLICY ANALYSIS:

The work included in the SIIP is in alignment with the City’s Asset Management Policy ensuring “that current community services are delivered in a socially, economically and environmentally responsible manner that does not compromise the ability of future generations to meet their own needs.”

FINANCIAL IMPLICATIONS:

Based on the Sustainable Infrastructure Investment Plan, the recommended contribution to the SIIP reserve is equivalent to \$468,000 (2024) or 1.5%, which will serve as the baseline for future cumulative increases. Starting in 2025, an equivalent 1.5% tax increase amount from a blend of taxation and non-market change revenue² will be included in the financial planning process for Councils consideration. Due to the cumulative nature of the contributions, the City could realize a closure of the infrastructure funding gap within the next 10 years.

While the SIIP document speaks to the recommended amount of funding required to create a sustainable infrastructure investment amount for both the water and sewer utility asset reserves, the cumulative source being either frontage taxation and operating revenue amounts will be further refined in the impending water and sewer rate review. A water and sewer utility rate review is currently being completed and it will include recommendations to increase contributions to the water and sewer utility asset reserves through cumulative increases to the utility rates and/or frontage fees (tax). A future report will detail the specific recommended increases for both water and sewer reserves in contemplation of the 2025 budget review process.

ADMINISTRATIVE IMPLICATIONS:

Integrating lifecycle costing into the purchasing policy, capital decision making and development process will require some changes to the way the City operates when approving large capital projects or development involving infrastructure. An examination of staff, vendor and developer capacity would determine the viability of such an endeavour. Prior to making critical infrastructure decisions with immediate benefits, the City should understand the long-term financial implications of those decisions which will have operational costs over the life of the new assets.

A timely capital procurement process as early as possible in the fiscal year should result in lower bid prices and resolve some of the risks of short construction windows when procurement happens later in the year. In order to achieve these benefits, earlier budget completion will need to occur and can only be achieved by beginning the budget cycle earlier in the year and / or shortening the cycle as well.

One tool the City has available is to change service levels to optimize the use of tax and rate revenue based on the community's needs. A strategic analysis of the service levels across the organization or in specific departments could result in changes to a variety of services that are offered.

Prior to completing much of the work, and particularly before implementing a tax or rate contribution to the Sustainable Infrastructure Investment Plan reserve, staff will need to develop and implement a communication strategy for the Sustainable Infrastructure Investment Plan. A UBCM grant for \$25,000 was received to complete much of the analysis in the SIIP as well as a communication plan. If endorsed, using the plan, staff will work throughout 2024 on messaging the work completed to date and the steps the City is taking in its effort toward sustainable service delivery and infrastructure renewal.

STRATEGIC PRIORITIES REFERENCE:

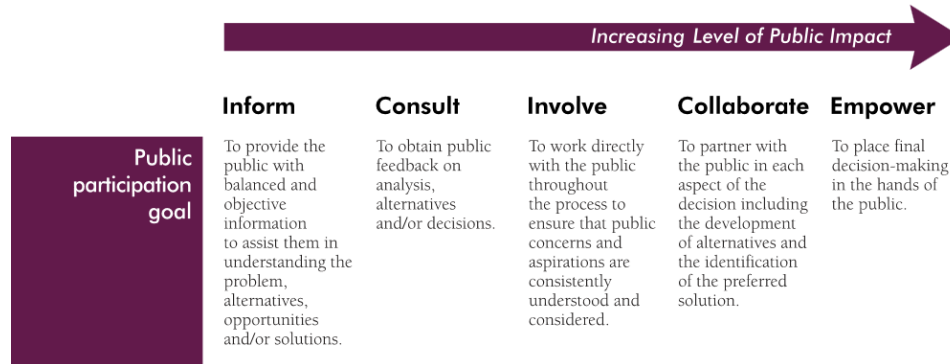
This initiative addresses the following strategic priorities:

- Financial Sustainability - Ensure capacity to accommodate big change
- Buildings and Landscape - Update Development Cost Charges (DCC) Bylaw

² The 2024 non-market change (NMC) revenue was \$433,770 (or a 1.3% portion of the Tax Levy). As NMC varies from year to year, a combination of NMC and tax increases could be used to fund the annual cumulative contribution to the SIIP reserve.

PUBLIC ENGAGEMENT:

Staff would inform the public based on the IAP2 Spectrum of Public Participation:



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OPTIONS:

1. TO BE MADE AS SEPARATE RESOLUTIONS
THAT Council approve the Sustainable Infrastructure Investment Plan.

THAT Council directs staff to implement the Sustainable Infrastructure Investment Plan by including the Plan's recommendations in the 2025-2029 financial planning process.

2. THAT Council provide alternative direction to staff.

ATTACHMENTS:

1. Sustainable Infrastructure Investment Plan (SIIP)

Prepared by: Chris Thompson, Manager of Public Works Services

Reviewed by: Kyle Shaw, ASCT, CPWI, CWP, CWWP, Director of Operational Services

Concurrence: Geoff Garbutt, M.PI., MCIP, RPP, City Manager (CAO)