



Date: September 25, 2023

To: Mayor and Council

Author: Ryan McLeod, Director of Finance and Corporate Services

RE: Asset Management Plan and Reserve Strategy

Report No.: FS-2023-13

RECOMMENDED ACTION

1. That the Asset Management Plan for Core Assets dated August 30, 2023 as prepared by Watson & Associates Economists Ltd **BE APPROVED**; and
2. That Administration **BE DIRECTED** to incorporate the reserve strategy proposed in Table 4 into the 2024, 2025 and 2026 draft Municipal budgets.

BACKGROUND

In 2017, the Province of Ontario enacted *Asset Management Planning for Municipal Infrastructure Regulation, O. Reg. 588/17* to standardize municipal asset management practices within the province. This regulation includes a number of phased in reporting requirements intended to increase the depth and scope of Asset Management reporting.

In 2022, Administration provided Council with a draft Asset Management Plan (AMP) on its Core Assets. As per O. Reg. 588/17, "Core Assets" refers to roads, bridges, water, waste water and storm water. Over the past year, Administration has worked closely with its consultant, Watson & Associates Economists Ltd., to refine assumptions, lifecycle activities and replacement costs.

Please see attached for the Town's Asset Management Plan for Core Assets, dated August 30, 2023.

DISCUSSION

The Town's core infrastructure is generally in good condition, however, the study confirms that the Town is not investing nearly enough in its existing infrastructure to maintain this service level over the long term.

This plan calculates the Total Replacement Cost and Annual Funding Requirement for the Town's Core Infrastructure. The Annual Funding Requirement refers to the amount

of money that the Town should set aside each year to keep its core infrastructure in a state of good repair.

Table 1 – Total Replacement Cost and Annual Funding Requirement

Asset	Total Replacement Cost (2022 \$)	Annual Funding Requirement
Roads	\$196,520,606	\$5,316,000
Bridges and Culverts	\$45,748,000	\$1,065,000
Water	\$158,686,315	\$1,504,000
Wastewater	\$137,274,008	\$2,016,000
Storm water	\$82,511,467	\$1,372,000
Total Core Assets	\$620,740,396	\$11,273,000

When comparing the Annual Funding Requirement identified in the AMP to the current level of funding provided in the 2023 Municipal Budget, there is a significant deficit. As outlined in Table 2 below, the Town is currently only funding 59% its Annual Funding Requirement for Core Infrastructure Assets.

Table 2 – Annual Funding Requirement vs. Current Level of Funding

Asset	Annual Funding Requirement	Current Level of Funding	Annual Funding Deficit	% Funded
Roads	\$5,316,000	\$4,105,000	\$1,211,000	77%
Bridges and Culverts	\$1,065,000	\$750,000	\$315,000	70%
Water	\$1,504,000	\$961,000	\$543,000	64%
Wastewater	\$2,016,000	\$740,000	\$1,276,000	37%
Storm water	\$1,372,000	\$150,000	\$1,222,000	11%
Total Core Assets	\$11,273,000	\$6,706,000	\$4,567,000	59%

Facilities

Although Municipal buildings are not considered “Core Infrastructure” for the purposes of O. Reg. 588/17, Administration recently performed an analysis of facility replacement values as part of the Town’s Facility Review.

The total replacement cost of Town Facilities, which includes; Town Hall, Arena, Police Station, Fire Stations, Libraries, Community Centers and Storage Buildings amounts to approximately \$58,411,000. Based on the estimated useful lives of these facilities, the Annual Funding Requirement would be \$1,613,000. As outlined in Table 3 below, the Town is currently only funding 33% of the cost required to replace these buildings at the end of their useful lives.

Table 3 – Facility Annual Funding Requirement vs. Current Level of Funding

Asset	Annual Funding Requirement	Current Level of Funding (Based on 2023 Budget)	Annual Funding Deficit	% Funded
Facilities	\$1,613,000	\$525,000	\$1,088,000	33%

Based on the above, the Town is not currently funding its core infrastructure or facilities at a sustainable level. By failing to adequately plan for the replacement of these critical assets, residents will be forced to accept lower service levels as these assets degrade and reach the end of their useful lives. What this means for the average resident is; rougher roads, less reliable water and wastewater systems, bridge and facility closures. Degrading infrastructure and facilities does not make Kingsville an attractive place to live, visit or do business.

To make matters worse, the Town is also battling rising construction costs from inflation. If the Town maintains its status quo funding levels, the Annual Funding Deficit will grow larger each year. According to Statistics Canada’s Non-Residential Construction Index, costs have increased by an average of 5.1% per year, over the past 10 years.

FINANCIAL CONSIDERATIONS

To address the existing funding deficit and respond to inflationary pressures, Administration recommends the following reserve strategy which aims to close the Annual Funding Deficit over the next 10 years.

Table 4 – Proposed Reserve Strategy

Asset	Annual Increase in Lifecycle Reserves (Indexed)	% of Tax Levy	% of Water Revenue	% of Wastewater Revenue
Roads	\$370,000	1.7%		
Bridges and Culverts	\$80,000	0.4%		
Water	\$125,000		1.5%	
Wastewater	\$205,000			7.4%
Storm water	<i>TBD</i>			
Facilities	\$200,000	0.9%		
Total	\$980,000	3.0%	1.5%	7.4%

To address inflationary pressures on replacement values, the Annual Increase in Lifecycle Reserve contributions noted above would need to increase at the same pace as the Statistics Canada’s Non-Residential Construction Index.

Tax Levy Impact

Roads, Bridges and Facilities are all funded by the general tax levy, therefore, any increase in reserve contributions for these assets would have a direct impact on taxation. Based on the proposed strategy, the annual reserve increases would require a tax levy increase of 3%. The actual tax rate impact of this levy increase would be offset, in part, by any assessment growth the Town experiences.

Roads

The current level of funding assumes the Canada Community Benefit Fund (formally known as Federal Gas Tax) and Ontario Community Infrastructure Fund (OCIF) will remain relatively stable and will continue to be directed towards the replacement of existing road infrastructure. It also assumes that any funding currently directed towards road related debt payments will be re-directed towards road life cycle reserves as this debt matures.

Water

Funding the replacement of water infrastructure is provided through the Town's water rates. As outlined in Appendix A, the Town currently has the lowest water rates in the County and increasing the capital reserve contributions by \$125,000 would not have a significant impact on rates.

Wastewater

Funding the replacement of waste water infrastructure is provided through the Town's sewage rates. Kingsville residents currently enjoy the lowest sewage rates in the County, and although a 7.4% increase to wastewater rates may sound significant, it would amount to approximately \$30 per year for average household.

Storm water

Storm water infrastructure funding is somewhat of a complicated topic for Municipalities with a mix of urban and rural populations, such as Kingsville. Under the Drainage Act, most of the costs associated with rural drainage systems are assessed directly to the benefiting property owners, so it would be unfair to expect rural property owners to also fund urban storm water infrastructure through general property tax rates.

The level of funding that the Town currently directs toward urban and rural storm drainage is relatively comparable. However, if Council is supportive of closing the infrastructure deficit on the urban storm sewer network, then an area specific storm sewer levy should be adopted. The development of such a levy will require considerable research and analysis of both costs and watershed. Administration is not prepared to make a recommendation on an urban storm sewer levy at this point in time.

Other Assets

Beyond Facilities, there are number of other significant assets which are not captured in the 2023 AMP, such as; sidewalks, streetlights, and recreational amenities (ex. splash pads, marinas, sports fields and courts).

Administration is currently reviewing the replacement costs of these important assets and developing a lifecycle funding strategy to ensure the Town can continue to deliver the services that residents have come to expect.

Overall

To be clear, the Annual Funding Requirements discussed above refers to level of funding required to maintain existing infrastructure and facilities. Any enhancements or additions to our existing infrastructure or facilities would have to be funded through Development Charges or additional tax or user fee increases.

Similar to the Asset Management Plan, the proposed reserve strategy is based on the best information available at present time. As new information becomes available or environmental factors change, the reserve strategy may need to be altered from time to time.

ENVIRONMENTAL CONSIDERATIONS

None.

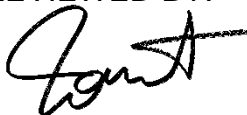
CONSULTATIONS

PREPARED BY:



Ryan McLeod, CPA, CA
Director of Finance and Corporate Services / Treasurer

REVIEWED BY:



John Norton
Chief Administrative Officer