



**Staff Report T2014-26
Strategic Financial Plan
Policy Paper No.3
Capital Asset Management Plan**

December 15, 2014

Submitted to: Mayor and Council
Submitted by: John Brown, CAO
Brent Andreychuk, Manager of Finance
Subject: Capital Asset Management Plan Update

PURPOSE

That this purpose of this report is to provide Council with:

- Background information on the Asset Management Plan.
- Identify next steps to be taken with the Asset Management Plan (AMP).
- Identify and options to mitigate the Tax Levy increases due to the infrastructure funding deficit.

RECOMMENDATION:

That Council receive Staff Report T2014-2 and refer the report to the Strategic Initiatives Committee for further review.

1. BACKGROUND

In 2014 staff developed an Asset Management Plan (AMP) for the Town of Collingwood which complied with the requirements as outlined in the provincial document "Building Together Guide for Municipal Asset Management Plans". Council approved the plan on August 25, 2014. It was intended to serve as a strategic, tactical, and financial document, ensuring the management of the necessary financial investment to maintain the Town's infrastructure followed sound asset management practices and principles, while optimizing available resources and establishing expected levels of service as outlined in the consultant's report. The definition of an asset management plan is *a strategic document that states how a group of assets is to be managed over a period of time*. The plan describes the characteristics and condition of Collingwood's infrastructure assets, the level of service expected from them, planned actions to ensure the assets are providing the expected level of service, and financing strategies to implement the planned actions. Choosing a financially sustainable level of service and

maintaining, rehabilitating and replacing assets in order to meet that level of service in the most efficient and effective manner is a critical component of maintaining the fiscal health of the community.

Staff completed an initial AMP in early 2014 which addressed the following asset classes:

- Road surfaces
- Bridges and culverts
- Sanitary sewer mains network
- Water distribution network

However, this plan did not provide a detailed financing strategy for the replacement of the Town's assets. As outlined in Council report # T2012-15 Watson & Associates Economists Ltd. were hired to help develop the AMP for tax supported assets and to provide a funding strategy for the replacement cost of existing Town assets. With the assistance of Town staff the plan was completed in June 2014 providing a more comprehensive plan which addressed additional asset classes (buildings, vehicles and equipment etc.) as well as recommending a funding strategy for all the activities in the asset management strategy that included a forecast of revenues and expenditures. This Asset Management Plan completed by Watson & Associates Economists Ltd. was required in order to qualify for Provincial infrastructure grants. The remaining life of some assets was based on the estimated engineering design life. Although this is a way to plan for future replacement activities, undertaking a complete replacement of an asset when the estimated life cycle is complete may be an ambitious goal in the short-term as some assets remain in use well past their estimated, useful life is complete, and regular maintenance and rehabilitation can extend an assets life.

The AMP report estimated the Town's annual tax supported infrastructure funding deficit at \$8.96 million (in 2014) dollars. This was based on an estimated annual capital investment of \$9.66 million (in 2014) dollars being required to meet short-term capital needs while establishing a funding plan for long term needs. The actual annual capital investment provided by the Town is approximately \$780,000 which is far short of the identified capital re-investment needs in the consultant's report.

The financing strategy for tax supported assets included a capital levy component. In order to fund the recommended asset requirements over the 20 year detailed plan, it was recommended that the Town's taxation levy increase by 3.6% per year for the years 2015 to 2022, declining to 1.8% thereafter. This financing strategy recommended by Watson made several assumptions including:

- Operating budget inflation rate assumed to be 2% annually
- Operating expenses included in the Town's current budget increase annually at the rate of inflation
- Taxation assessment growth was assumed to be 1.0% annually

Watson & Associates Economists Ltd. long-term financing strategy for the Town in Table 5 of the Asset Management Plan recommended a tax supported levy of \$4.4 million for debt and Capital Reserves in 2015 representing tax levy monies of 15.6%. This tax supported Levy would grow to \$18.6 million or 35.2% of the tax levy monies by 2033.

2. INPUT FROM OTHER SOURCES

"Town of Collingwood Asset Management Plan", Watson & Associates Economists Ltd., June 2014

3. APPLICABLE POLICY OR LEGISLATION

N/A

4. ANALYSIS

The Town of Collingwood has purchased its own Capital Asset Planning and Analysis software from CityWide. This software will assist with the development of our own financial planning models pertaining to existing capital and infrastructure assets. The asset management plan is a “living document” that needs to be updated annually as new information is obtained, and refined as capital work is undertaken.

Next Steps:

- Update the software with any 2014 changes to our inventory of assets including asset additions, disposals, refurbishments as well as any changes in the condition of any of our assets.
- Provide software training to staff.
- Development of updated financial scenarios including, projected tax rate increases, revenues available or committed, terms of reserve usage, debt issuance and repayment terms, inflation provisions, long-term capital project financial planning and operating budget service program review.
- Link key objectives of the municipality’s strategic plan to the key components and outcomes of the Asset Management Plan.
- Continue to update the asset management related data and information. Ensure that the Asset Management Plan is updated for the any changes in condition assessments, replacement cost data and asset useful life.
- Develop a process for staff to provide updates on the change in conditions of assets for which they are responsible for.

To enable Council to make more informed decisions the plan needs to be kept current on an ongoing basis. Many municipalities utilize a system of integrating asset management into their long-term financial and strategic planning to prioritize capital works. It is very important to know whether the condition of assets has improved or deteriorated since the last update or if there has been a change within the asset categories. Staff will provide Council with regular updates on the state of our infrastructure, key fiscal indicators related to the Asset Management Plan as well as the current infrastructure deficit. (Watson & Associates Economists Ltd. included a detailed condition assessment policy for the Town to follow in Appendix C of the Asset Management Plan report)

There are several options available to the Town to reduce the estimated 3.6% annual increase required in the taxation levy including:

- Redirect savings in police costs to the Tax Supported Capital Reserve Fund.
- Pursue all opportunities for infrastructure grants from all levels of government.
- Transition debt repayments when they retire to capital levy contributions as this “spending room” is already in the annual operating base budget.
- The identification of any other budget savings or efficiencies and then reallocation to the Capital Levy.

- Approve a policy which would allocate Supplemental assessments to the capital levy.

Employing these options will help reduce the tax levy increase as well as assist in funding the capital levy on an annual basis.

5. EFFECT ON TOWN FINANCES

As previously noted implementing the proposed financing strategy would have the potential to reduce the burden on the tax levy amount in future years.

6. APPENDICES & OTHER RESOURCES

Resource 1	<i>"Town of Collingwood Asset Management Plan"</i> , Watson & Associates Economists Ltd., June 2014
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SIGNATURES

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