



CORPORATION OF THE TOWNSHIP OF ESQUIMALT

Municipal Hall
1229 Esquimalt Road
Esquimalt, B.C. V9A 3P1

Staff Report

File #:23-610

TOWNSHIP OF ESQUIMALT STAFF REPORT

MEETING DATE: December 18, 2023

Report No. ADM-23-048

TO: Council

FROM: Dan Horan, Chief Administrative Officer

SUBJECT: Asset Management Program & Long Term Financial Plan

RECOMMENDATION:

That Council endorse an updated approach to asset management that includes adding two proposed projects to the Council Priorities Plan, including Facilities Assessment and Master Plan (estimated \$250,000) and Storm Sewer Master Plan (estimated \$250,000) in 2024, and completing an Asset Management Strategy Update in 2024, including further detail on likely 2025-2027 needs including Parks Asset Management Plan, Roads/Sidewalks Assessment and Asset Management Plan, and Fleet Assessment and Asset Management Plan;

And that the annual transfer to the Infrastructure and Revitalization Reserve Fund be cumulative, so that the amount transferred to the reserve increases each year by the equivalent of 1% tax revenue (calculated based on the previous year's financial results);

And further that staff be directed to provide a report to Council on how non-market change revenue related to development can be used to offset infrastructure asset management costs.

EXECUTIVE SUMMARY:

Several critical Council decisions over the past ten years have created a solid foundation of infrastructure asset management practices in the Township of Esquimalt. Staff's recent asset management work has moved forward to next steps, identifying infrastructure funding gaps that must be addressed should Esquimalt wish to sustain service delivery over the long-term. This report outlines the work done by staff and provides some options for Council to take action to begin bridging the gaps.

BACKGROUND:

Council established a new reserve fund in 2014 to address long-term infrastructure revitalization needs. Established via the *Infrastructure and Revitalization Reserve Fund Bylaw, No. 2838* (see Attachment 1), Council transferred an initial \$2.9M from accumulated surplus into the new reserve and initiated a consistent annual transfer to reserves. The bylaw ensured that "[a]n amount

equivalent to the value of one percent (1%) tax increase calculated based on the previous year's financial results" is set aside each year for revitalization initiatives or the replacement of existing long-term infrastructure.

Council adopted an Asset Management Policy (FIN-17, see Attachment 2) in July of 2017. The policy defined asset management as "...an integrated, lifecycle approach to an effective stewardship of infrastructure assets to maximize benefits, manage risk and provide satisfactory levels of service to the public in a sustainable manner." The policy also outlined Council's objectives for infrastructure sustainable service delivery, including principles, procedures, and responsibilities for staff and for Council.

The principle of sustainable service delivery is at the core of Esquimalt's asset management policy. The concept is fundamental to the Asset Management BC Framework (see executive summary at Attachment 3) and is explained below:

"[Sustainable Service Delivery] ... ensures that current community service needs, and how those services are delivered (in a socially, economically, and environmentally responsible manner), do not compromise the ability of future generations to meet their own needs. Communities build and maintain infrastructure to provide services. These services support our quality of life, protect our health and safety, and promote social, economic, and environmental well-being. Failure to care for our infrastructure, manage our natural resources and protect the benefits enjoyed by nature risks degrading, or even losing, the services communities enjoy, and that future generations may rely on. Sound asset management practices support Sustainable Service Delivery by considering community priorities, informed by an understanding of the trade-offs between the available resources and the desired services."

Council's Strategic Priorities for 2019-2023 included strategic goals "to efficiently and effectively provide local services and infrastructure." Some of the initiatives meant to address these goals included the following:

- Identify infrastructure repair and proactively plan for replacement needs
- Identify long term financial requirements for local services and infrastructure by developing an asset management strategy and plans

While establishing strategic priorities for their current term, Council reinforced the previously established asset management objectives by funding the following projects to address Good Governance & Organizational Excellence in the Council Priorities Plan for 2023-2026:

- Asset Management Program - Recreation Inventory and Plan Development
- Asset Management Program - Sanitary Sewer Master Plan
- Long-term Financial Planning Update - Infrastructure Asset Management Strategy

The first two projects - the Recreation Inventory and Plan Development and the Sanitary Sewer Master Plan - are both high priority asset management projects that are on track for completion in 2024. This report is the deliverable for the Long-Term Financial Planning update as directed in Council's plan. This report is also intended to identify the next recommended projects for inclusion in

the Council Priorities Plan as well as recommendations related to sustainable infrastructure funding in Esquimalt.

ANALYSIS:

A Long-term Financial Planning analysis, led by the Director of Financial Services, was completed in Fall of 2023. The aim of the analysis was to make an updated assessment of the Township's infrastructure sustainability. Though there remains much work to be done to further the Township's asset management program, staff can now provide an updated assessment about the amount of repair and replacement of Township assets that is currently planned against a best practice target of sustainable service delivery. The updated assessment also provides initial targets for how much funding should be set aside in the reserves to sustain the Township's infrastructure in the long term. The analysis at Attachment 4 explores these ideas, but the key findings are summarized below:

- The Township's current capital program (approximately \$3M per year) is not enough to maintain infrastructure sustainably; without an increase in funding and an increase in repair/replacement of Esquimalt's assets, the Township will not be able to sustain services at the current levels.
- Though asset condition assessment programs are underway, the Township's infrastructure renewal and replacement plans are focused on the short term.

Currently, the Township's infrastructure and service delivery issues are commonly planned or resourced looking ahead only 1 or 2 years. With a few exceptions, the organization is not currently able to predict operating/capital needs far enough ahead to develop robust 5-year infrastructure renewal plans. In addition, demands on services and expectations for service delivery appear to have consistently increased over the past 10 years, while funding levels and resourcing for staff have remained relatively static over that same period.

Staff's understanding of the condition of the Township's assets is not currently developed enough to produce long-term plans and determine the required level of funding to support those plans; consequently, staff are proposing two projects for funding in 2024 that aim to address some of these gaps. The key initial gaps that should be addressed are the Stormwater System and Municipal Facilities. Soon after, roads/sidewalks, parks, natural assets, and the municipal fleet will need to be assessed in a similar way.

In addition, staff are proposing a gradual increase to the savings program established with the creation of the *Infrastructure and Revitalization Reserve* funding program. Though long-term infrastructure funding plans will be developed as master plan work proceeds over the next few years, it is clear that the infrastructure reserve balances and the current transfers to reserve are not high enough to sustain Esquimalt's current levels of service. The staff proposal is to increase the amount of transfers to reserve and to reassess long-term infrastructure sustainability in a formal way no later than 2027.

The long-term financial planning assessment (Attachment 4) outlines a scenario for Council consideration that compares the current infrastructure savings plan with a scenario where infrastructure savings are augmented each year by an increase of 1% tax rate equivalent, providing an incremental way for infrastructure savings to be accelerated significantly over a 5 year period.

The long-term financial planning update (Attachment 4) also describes the increased tax revenues that municipalities received as properties are developed and new construction is built. This increased revenue is called non-market change (NMC). Many municipalities (including Esquimalt) use NMC revenue to reduce the tax burden for current taxpayers. Best practice is to recognize NMC as revenue that should be set aside for future infrastructure renewal or for new infrastructure tied to community growth. Staff recommend that an NMC policy for infrastructure funding be developed and presented to Council for consideration.

While considering Council's options for the way ahead, the staff assessment is that the current infrastructure savings program is not sustainable in the short-term. The proposed planning projects and adjustments to the annual infrastructure savings plan are considered the minimum feasible approach to sustaining services in the municipality. Staff have considered more rapid or accelerated infrastructure savings plans in their analysis. Though these increased infrastructure savings plans are likely necessary in the next 4-5 years, staff require more time to bring forward infrastructure renewal plans that properly address and balance the complex community needs related to long-term plans.

Environmental Impact:

Asset Management practices are meant to ensure that the Township is planning for and delivering services that address social, economic and environmental needs across generations. Council has set strategic targets to address climate change and environmental resiliency, including initiatives such as retrofitting municipal buildings to reduce carbon footprint, modernizing and electrifying the municipal fleet, and even potentially moving towards innovative solid waste management initiatives. In order to look to the future to address these aspirational environmental initiatives, the core businesses and services of the municipality need to be funded in a sustainable way.

OPTIONS:

Option 1 - Recommended Way Forward:

That Council endorse an updated approach to asset management that includes adding two proposed projects to the Council Priorities Plan, including Facilities Assessment and Master Plan (estimated \$250,000) and Storm Sewer Master Plan (estimated \$250,000) in 2024, and complete an Asset Management Strategy Update in 2024, including further detail on likely 2025-2027 needs including Parks Asset Management Plan, Roads/Sidewalks Assessment and Asset Management Plan, and Fleet Assessment and Asset Management Plan;

And that the annual transfer to the Infrastructure and Revitalization Reserve Fund be cumulative, so that the amount transferred to the reserve increases each year by the equivalent of 1% tax revenue (calculated based on the previous year's financial results).

And further that staff be directed to provide a report to Council on how non-market change revenue related to development can be used to offset infrastructure asset management costs.

Option 2 - Alternative to the Recommended Way Forward:

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That Council endorse an updated approach to asset management that includes more rapid and significant infrastructure savings plans.

Option 3 - That Council provide alternative direction to staff.

COUNCIL PRIORITY:

A long-term financial planning update (related to Infrastructure Asset Management Strategy) was identified as a project for staff to complete under Good Governance & Organizational Excellence within the Council Priorities Plan for 2023-2026.

FINANCIAL IMPACT:

Staff's recommendations, if supported by Council, will result in changes to the 2024-2028 Financial Plan. Council will review and approve the 2024-2028 Financial Plan in 2024 to meet the May 2024 statutory deadlines for financial plan approval.

COMMUNICATIONS/ENGAGEMENT:

No deliberate community engagement is planned for this work, other than the community feedback received during the annual budget process which produces the municipality's five-year plan.

TIMELINES & NEXT STEPS:

Should Council support the staff recommendation outlined in this report, the funding for the recommended projects and the increased funding transfers will be incorporated into the 2024-2028 Five-Year Financial Plan. Staff will begin drafting Requests for Proposals so that the appropriate consultant support can be engaged soon after budget approval is received.

REPORT REVIEWED BY:

1. Ian Irvine, Director of Finance, Reviewed
2. Deb Hopkins, Director of Corporate Services, Reviewed

LIST OF ATTACHMENTS:

List all items attached to the Staff Report

1. Infrastructure and Revitalization Reserve Fund Bylaw, 2014, No. 2838
2. FIN-17 Asset Management Policy, July 2017
3. Asset Management for Sustainable Service Delivery: A BC Framework, Executive Summary
4. Briefing Note: Long Term Financial Planning (Asset Management Strategy), Director of Financial Services and Information Technology, November 2023