

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING OF MARCH 7, 2017</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER &amp; ACTING CITY MANAGER</b>
<b>SUBJECT:</b>	<b>ASSET REVIEW: SALE OF MAJOR ASSETS POLICY AND FUTURE ASSET REVIEW TIMELINES</b>

<b>RECOMMENDATION</b>
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That on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer & Acting City Manager the following actions be taken:

- 1) the attached proposed by-law (Appendix "A") **BE INTRODUCED** at the Municipal Council meeting to be held on March 21, 2017 for the purpose of adopting a new Council policy entitled "Sale of Major Assets Policy"; and,
- 2) the timelines for future reviews of municipal assets identified in Appendix "B" **BE ENDORSED**, it being noted that the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer will be responsible for initiating future updates.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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"Review of Corporate Assets: Initial Scoping Report," Corporate Services Committee, December 13, 2016

"Capital Assets and Revenue Alternatives," Committee of the Whole, November 8, 2011

"Capital Assets and Revenue Alternatives – Discussion Paper," Committee of the Whole, June 21, 2011

<b>PURPOSE OF REPORT</b>
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On December 19, 2016, Municipal Council approved an approach and tasks related to a review of municipally-owned assets. This report responds to item b) of the Council resolution, which is as follows:

*That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following actions be taken:*

- b) the Council-adopted "Principles for Identifying Asset Sales and Revenue Alternatives" provided in Appendix 'A' to the staff report dated December 13, 2016 BE RECEIVED for information; it being noted that the principles will be further developed into a Council policy;*

Additionally, the December 13<sup>th</sup> staff report suggested preliminary timelines associated with future asset reviews. Based on feedback received from Council and further consideration, this report provides a recommended approach for endorsement.

**BACKGROUND**

Sale of Major Assets Policy

Arising from the 2011 asset review, Council adopted “Principles for Identifying Asset Sales and Revenue Alternatives”. The principles are intended to provide guidance and structure to the difficult task of identifying assets to be sold and the many alternatives available for the use of the resulting proceeds. Importantly, the asset principles speak to the use of sale proceeds to generate future benefits, rather than funding for short-term priorities.

With Council direction, Staff developed a Sale of Major Assets Policy, using the Principles as a basis. The Policy establishes objectives, strategy, guidance and procedures for the use of proceeds generated from the sale of major assets by the City of London.

The proposed Sale of Major Assets Policy identifies important considerations for determining the best use of proceeds from an asset sale, including matters for analysis prior to the sale of an asset and how proceeds should and should not be used.

The following uses for the proceeds from the sale of a major asset are outlined in the Policy:

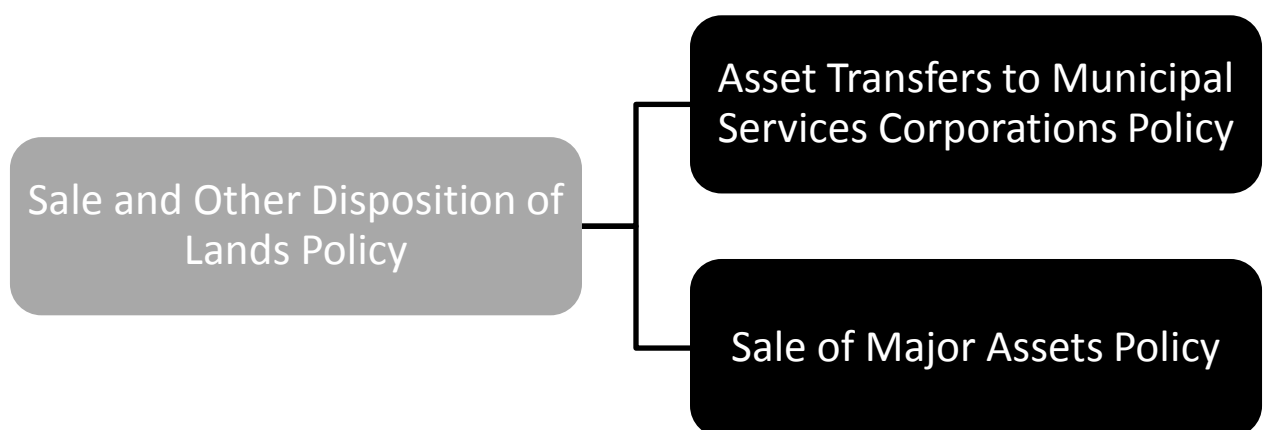
- substitute funding for approved but unissued debt;
- purchasing a new asset(s) that produces a return on the investment (both financial and non-financial value improvements); and,
- investments that generate predictable interest revenue to provide ongoing contributions for strategic initiatives.

Importantly, the Policy recognizes that Council must consider how to address budget shortfalls in the event that an asset is sold that was producing net positive financial contributions.

Four types of asset sale scenarios are envisioned by the Policy: 1) major venues, non-core services and assets, 2) strategic lands and assets, 3) surplus land, and 4) land purchased for growth or lifecycle renewal infrastructure projects. Although the use of proceeds for 1) major venues, non-core services and 2) assets and strategic lands and assets will be a matter for Council determination, the proceeds generated from the sale of surplus lands will be allocated by the City Treasurer, consistent with the administrative approaches outlined in the Sale and Other Disposition of Lands Policy.

The Policy does not specifically recognize the Housing Development Corporation (HDC). As noted in Figure 1 below, the Sale and Other Disposition of Lands Policy provides the policies, process and procedures for identifying surplus lands and providing recommendations for disposal. The City has adopted a “housing first” approach to surplus lands, whereby the HDC is provided the first opportunity to acquire identified properties prior to formal disposal by the City. In the event that the HDC cited a need for surplus lands, Council has adopted the Asset Transfers to Municipal Services Corporations Policy to provide a mechanism to vest property (and other assets) with the HDC. Surplus lands not of interest to the HDC would be disposed of and subject to the Sale of Major Assets Policy.

**FIGURE 1: RELATIONSHIP OF CITY LAND DISPOSAL AND TRANSFER POLICIES**



Future Review of Municipally-owned Assets

Although previous “ad hoc” reviews of municipal assets have been performed, Civic Administration recognizes that Council would benefit from a formal process for regular asset reviews.

At the December 13, 2016 Corporate Services Committee meeting, Committee members requested that asset reviews be aligned with Council’s term of office and to target significant asset reviews for the middle of Council’s term. This feedback has been incorporated into the revised timeline identified in Appendix “B”, which is recommended for Council endorsement.

The City Treasurer has committed to initiating future asset reviews based on the suggested timelines.

<b>CONCLUSION</b>
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The adoption of the Sale of Major Assets Policy (Appendix “A”) will provide a needed basis for discussions on the use of proceeds, should Council wish to dispose of assets in the future. The Policy outlines objectives, strategies and procedures to guide Council and staff and assist with decision-making.

Appendix “B” provides a suggested timeline for future asset reviews. Dates have been chosen to align with Council’s term in office and significant assets will be considered at the mid-term period.

<b>PREPARED AND SUBMITTED BY:</b>
<b>PAUL YEOMAN, RPP, PLE BUSINESS PLANNING PROCESS MANAGER FINANCE AND CORPORATE SERVICES</b>
<b>REVIEWED AND RECOMMENDED BY:</b>
<b>MARTIN HAYWARD, CPA, CGA MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER &amp; ACTING CITY MANAGER</b>

February 24, 2017

- cc. Senior Leadership Team
  - L. Palarchio, Director, Financial Planning & Policy
  - A.L. Barbon, Director, Financial Services
  - B. Warner, Manager, Realty Services
  - T. Wellhauser, Division Manager, Facilities

**Appendix “A”:** By-law to establish a Sale of Major Assets Policy

**Appendix “B”:** Timeline for Future Reviews of Municipal Assets

## **APPENDIX 'A'**

### **SALE OF MAJOR ASSETS POLICY**

#### **1.0 POLICY PURPOSE**

The purpose of this policy is to establish objectives, strategy and guidance for the use of proceeds generated from the sale of major assets by the Corporation of the City of London.

This policy also describes the procedures to be followed in the event that Council has approved the disposal of a major asset.

#### **2.0 SCOPE**

This policy applies to the proceeds generated from the sale of all municipal assets that Council has approved for disposal, per Council's Sale and Other Disposition of Land Policy and other approvals.

The following types of asset sales are excluded from this policy:

1. minor assets;
2. industrial lands offered for sale as part of the Corporation's Industrial Land Development Strategy; and,
3. salvage materials arising from infrastructure construction and/or lifecycle renewal projects.

#### **3.0 DEFINITIONS**

In this policy, the following terms shall have the meaning ascribed to them:

"Civic Administration" means the service areas and service area leads as identified in the Corporation's Civic Administration By-law, as amended from time-to-time;

"Corporation" means the Corporation of the City of London;

"Council" means the municipal council of the Corporation;

"disposal" means activities associated with the sale of an asset, following it being deemed surplus by Council or an authorized individual, where applicable;

"major assets" means municipally-owned and controlled property, buildings, infrastructure and ownership interest in corporations providing local services;

"minor assets" means assets that are regularly replaced due to their limited lifecycle period and use during day-to-day business operations. Examples include: vehicles, equipment, furniture and supplies;

"proceeds" means the net revenues gained from the sale of an asset;

"productive asset" means an asset where revenues generated from the asset cover the cost of operating that asset, or the asset meets a municipal need; and,

"surplus" means assets that the City no longer requires to meet its current or future needs.

#### **4.0 OBJECTIVES**

The primary objectives of this policy are as follows:

**Reduce debt:** Proceeds from the sale of assets can be used as a substitute funding source for debt planned to be incurred by the municipality (i.e., approved but not issued).

**Provide a funding source for other revenue generating assets:** There may be circumstances where the proceeds from the sale of an asset can be directed to investments or the acquisition of new assets that provide a greater return than the previous asset and/or provide greater financial benefits than debt substitution.

**Provide a funding source for other initiatives:** Allocating the proceeds from asset sales to Council-directed strategic initiatives may have significant community benefits.

## 5.0 STRATEGY

The short and long-term impact of an asset sale must be carefully analyzed to assess such matters as relocation and/or exit/re-entry costs, valuation and market timing, community impact, operating cost considerations, risk mitigation/transfer opportunities, and long-term cost and service standard issues. Asset sale proposals will generally be supported by a business case.

Asset sales provide one-time funding. It is essential that proceeds be used to generate future benefits, rather than being spent on immediate, one-off needs.

Major assets are resources of the Corporation and not an asset of any individual department. The determination of proceeds may be net of costs directly linked to the sale of the asset.

Council and Civic Administration will have consideration of the Corporation's Strategic Plan and its Official Plan when contemplating the sale of a major asset.

In conformity with Section 106 of the Municipal Act, 2001 (as amended), no property of the municipality shall be sold at below fair market value.

The proceeds from the sale of a major asset should not be used for the following purposes:

1. to reduce tax rate/budget pressure;
2. to provide a source of funding for a new asset that does not produce a return on investment; or,
3. to fund ongoing/permanent expenditures.

The proceeds from the sale of an asset should be used in the following priority order:

1. substitute funding for approved but unissued debt;
2. purchasing a new asset(s) that produces a return on the investment (both financial and non-financial value improvements); and,
3. investments that generate predictable interest revenue, noting that only interest proceeds may be used to provide one-time or ongoing contributions for strategic initiatives.

In the event that Council disposes of a productive asset that provided financial contributions to the Corporation beyond cost recovery, any budgetary shortfalls must be addressed through investment returns from the proceeds and/or additional tax revenues.

## 6.0 PROCEDURES

Council will determine if a major asset shall be offered for sale, based on the outcomes of a strategic review and/or through the process outlined in the Sale and Other Disposition of Lands Policy.

The following procedures will be followed in the event that Council has approved an asset for disposal:

### 1. Major venues, non-core services and assets

- a. Civic Administration will be directed by Council to identify the recommended means for the sale of the asset.
- b. Council will approve the means of sale.
- c. The City Treasurer will submit a recommendation to Council for the allocation of proceeds generated from the sale of the asset.
- d. Council will approve the allocation of proceeds based on the recommendation of the City Treasurer and/or the strategy identified in this policy.

## **2. Strategic lands and assets**

- a. The City Manager may identify lands or other assets as strategic in nature, given unique community benefits. Subsequently, Civic Administration will recommend the means for the sale of the asset.
- b. Council will approve the means of sale.
- c. The City Treasurer will submit a recommendation to Council for the allocation of proceeds generated from the sale of the asset, which may include contributions to off-set costs associated with the sale and/or other linked community benefits.
- d. Council will approve the allocation of proceeds based on the recommendation of the City Treasurer and/or the strategy identified in this policy.

## **3. Surplus land**

- a. The City Treasurer, upon the advice of the Manager of Realty Services, will determine the appropriate method of sale, per the Sale and Other Disposition of Lands Policy.
- b. The City Treasurer will determine the allocation of proceeds generated from the sale of surplus land, based on the strategy identified in this policy.

## **4. Land purchased for growth or lifecycle renewal infrastructure projects**

- a. The City Treasurer, upon the advice of the Manager of Realty Services, will determine the appropriate method of sale, per the Sale and Other Disposition of Lands Policy.
- b. The City Treasurer will determine the allocation of proceeds generated from the sale of land, based on the strategy identified in this policy. Two circumstances are contemplated:
  - i. Sale proceeds below the purchase price of the original asset: The allocation will be to direct the proceeds to the project account for which the lands were purchased (e.g., a property purchased for a road widening).
  - ii. Sale proceeds above the purchase price of the original asset: The allocation will be to direct an amount equal to the original purchase price to the project account for which the lands were purchased. Proceeds above the amount of the original purchase price will be allocated consistent with the strategy identified in this policy.

**APPENDIX “B”**  
**TIMELINE FOR FUTURE REVIEWS OF MUNICIPAL ASSETS**

<b>Category</b>	<b>Review Cycle</b>	<b>Comments</b>
Class A – Vacant land and buildings	2019 and every 2 years thereafter	A comprehensive review of vacant municipal land and buildings will be undertaken every 2 years and reported out to Corporate Services Committee with recommendations.
Class B – Industrial lands for sale	Ongoing	Realty Services will continue to actively sell municipally-owned industrial lands as part of the Industrial Land Development Strategy and will report holistically to Council with the Industrial Land Development Strategy Annual Monitoring and Pricing Report.
Class C – Major venues, non-core services and assets	2020 and in the middle of each Council term thereafter	A comprehensive review of Class C assets will occur in the middle of a Council term, with recommendations to be provided to the appropriate Standing Committee.
Class D – Buildings and land associated with core municipal operations	By specific Council direction (i.e., service review)	No actions will be undertaken to consider the sale of Class D assets without specific direction of Council for a service review. On an annual basis, Service Areas will assess whether opportunities exist to dispose of assets no longer central to the provision of their services and dispose of these assets per Council-approved policies.
Class E – Furniture, equipment and vehicles	Ongoing	The disposal of furniture, equipment and vehicles is ongoing as these items become obsolete, surplus or beyond their useful life. Given the nature of these assets, future comprehensive reviews are not required and disposal will occur per Council-approved policies.
Class F – Constrained land (non-developable)	No comprehensive review required	Although these assets will continue to be tracked as part of Tangible Capital Assets records and the Corporate Asset Management Plan, future reviews of these lands from an asset sale perspective will only be undertaken in the event that a regulatory change occurs that impacts the “developability” of the lands.
Class G – Hard services	No comprehensive review required	It is not anticipated that these assets will be disposed of holistically. Components may be sold as salvage as part of asset renewal, which will generate minor proceeds. Comprehensive reviews of these assets is not deemed to be necessary.