

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON SEPTEMBER 8, 2020
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	CAPITAL ASSET RENEWAL & REPLACEMENT RESERVE FUND RATIONALIZATION REPORT

RECOMMENDATION

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

- a) the Capital Asset Renewal and Replacement Reserve Funds by-law attached as Appendix C, including supporting reserve funds (Schedule A), **BE INTRODUCED** at the Municipal Council meeting to be held on September 15, 2020;
- b) the reserve fund by-laws listed in Schedule B of Appendix C **BE REPEALED** at the Municipal Council Meeting to be held on September 15, 2020, it being noted that these reserve fund by-laws are being replaced with the Capital Asset Renewal and Replacement Reserve Funds by-law contained in recommendation a) above.
- c) the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer **BE AUTHORIZED** to take all actions necessary to implement the changes to the City's reserve funds outlined in this report.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
--

Corporate Services Committee, May 11, 2020, Agenda Item #2.2, 2019 Year-End Capital Monitoring Report
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=72773>

Strategic Priorities and Policy Committee, August 26, 2019, Agenda Item #4.3, 2019 Corporate Asset Management Plan
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=66559>

Corporate Services Committee, September 25, 2018, Agenda Item #2.2, Reserves Rationalization Report
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=50269>

Corporate Services Committee, July 17, 2018, Agenda Item #2.4, Reserve and Reserve Fund Policy Report
<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=47669>

LINK TO 2019-2023 STRATEGIC PLAN

Council's 2019-2023 Strategic Plan for the City of London identifies "Leading in Public Service" as one of five strategic areas of focus. The Capital Asset Renewal and Replacement Rationalization Report supports this strategic area of focus via the strategic priority "The City of London is a leader in public service as an employer, a steward of public funds, and an innovator of service" which includes maintaining London's finances in a transparent and well-planned manner to balance equity and affordability over the long term.

BACKGROUND

The use of reserves and reserve funds are an important tool that helps the City of London's (the "City") long-term financial planning. This is the second report submitted with regard to the rationalization of the City's reserve and reserve fund portfolio in accordance with the Reserve and Reserve Fund Policy approved by Council in 2018. The first report, Reserves Rationalization Report, implemented a number of changes including revising the list of reserves and their names for consistency, creating new and terminating old reserves, consolidating balances, and setting target balances for the City's contingency holdings across the City's three budgets (Property Tax, Water Rate, and Wastewater & Treatment Rate).

The purpose of this report is similar, to create administrative efficiencies in the management of the City's Capital Asset Renewal and Replacement (CARR) reserve funds and align the City's holdings with the approved Reserve and Reserve Fund Policy. These reserve funds support the City's lifecycle capital plan and are a significant part of the 'pay-as-you-go' financial strategy that funds the maintenance, renewal and replacement of the City's existing assets. This means that within the lifecycle renewal capital budget the City is committed to paying for capital expenditures with current year operating funding (capital levy) and savings held in reserve funds. This allows the City to avoid the use of debt for these capital works. In the approved 2020-2023 Multi-Year Budget the City will meet its target of 0% debt financing in the lifecycle renewal capital budget by 2022. Over the 2020-2023 Multi-Year Budget period the CARR reserve funds provide 33% of the funding for the City's tax supported lifecycle renewal capital budget (page 108, Approved 2020-2023 Tax Supported Budget).

These reserve funds support two of the primary objectives of the City's Reserve and Reserve Fund Policy:

PROVISION FOR MAJOR CAPITAL EXPENDITURES

It shall be the City's goal to maintain adequate reserves and reserve funds to replace and rehabilitate major capital assets, as required, and to provide for new capital assets that have been identified in the long-term capital plan. To achieve this goal, the following budget practices will be applied where applicable:

- *Reserve funds for the full cost of replacement or rehabilitation of major assets will be funded from ongoing operations at a rate which reflects the consumption of that asset by current ratepayers. Contributions to these funds will commence in the fiscal year that the asset is acquired or put into service and will be based on an estimate of the useful life of the asset.*

[...]

REDUCE TAX/RATE SUPPORTED DEBT

- As per the principles of the Council approved Capital Budget and Financing Policy, the City shall use reserve and reserve fund balances as a source of financing for capital projects.*
- When appropriate, the City shall use reserve and reserve fund balances as a source of debt substitution for capital projects which were previously approved with debt financing.*
- If discretionary reserves and reserve funds are below established targets, all or a portion of the future debt servicing cost savings resulting from reserve and reserve fund balances applied towards debt substitution shall be considered for future contributions to discretionary reserves or reserve funds at the discretion of the City Treasurer, it being noted that such contributions are subject to Council approval through the City's budgetary process.*

Currently the City maintains twenty-two (22) CARR reserve funds with forecasted uncommitted 2020 balances that total approximately \$169.3 million; \$82.1 million (tax), \$41.1 million (water), and \$46.1 million (wastewater & treatment). These reserve funds have been an important element of the City's long-term strategic financial plan, helping address the lifecycle renewal needs of its infrastructure and contributing to maintenance of the City's Aaa credit rating. The current CARR reserve fund holdings are summarized in Appendix A.

FUNDING THE INFRASTRUCTURE GAP

In 2019, the City's second edition of the Corporate Asset Management Plan (CAM Plan) was published outlining the replacement values, useful lives, condition, levels of service and infrastructure gap associated with the City's many classes of assets. In 2020 the CAM Plan Update (Corporate Services Committee, September 8, 2020) indicates that the City currently

owns \$21.3 billion of infrastructure with a 10-year infrastructure gap, as it relates to lifecycle renewal works, that is projected to grow to \$635.0 million by 2029 (includes tax, water, wastewater & treatment). This suggests that while progress has been made since the first CAM Plan was published in 2014, work remains in addressing the lifecycle renewal needs of the City's infrastructure.

With Council's support the City has made significant strides increasing the amount of funding available for lifecycle renewal since 2016 when the Capital Infrastructure Gap Reserve Fund was first established. The Capital Infrastructure Gap Reserve Fund is anticipated to receive \$51.1 million in tax supported contributions during the 2020-2023 period. This reserve fund is a significant source of financing for numerous lifecycle renewal capital projects over the course of the City's 10 year capital plan.

Like most municipalities, the City has been challenged in finding the balance between delivering services expected by the community in an affordable manner, and providing adequate funding for asset renewal. Every four years, in concert with the City's Multi-Year Budget cycle, the Corporate Asset Management (CAM) division publishes London's Corporate Asset Management Plan. This Plan is the foundation of two inputs currently incorporated into the City's financial planning practices that help fund lifecycle renewal and replacement work:

1. Multi-Year Budget Business Case – Each multi-year budget the City's CAM division creates a business case for Council's consideration that requests funding depending on the outcome of the most recently completed CAM Plan. This funding is currently contributed to the Capital Infrastructure Gap Reserve Fund which in turn funds individual lifecycle renewal capital projects as required through the City's budget development process.
2. Assessment Growth Business Case – Each year the City's CAM division creates a business case requesting funding to establish lifecycle savings plans for new assets created by developers and assumed by the City, or created directly by the City from capital works funded via the City's growth capital budget. This funding is also currently contributed to the Capital Infrastructure Gap Reserve Fund which in turn funds individual capital projects as required through the City's budget development process.

The Capital Infrastructure Gap Reserve Fund has been a useful tool in the City's long-term planning as it relates to funding the requirements of its existing infrastructure.

CARR RESERVE FUND RATIONALIZATION

Unlike the 2018 Reserves Rationalization Report, where a number of funds were consolidated, Civic Administration is recommending that the benefits gained through changes to the structure of the CARR reserve funds primarily focus on an enhanced alignment with the City's CAM Plan. The structure recommended in this report maintains twenty-one (21) CARR reserve funds with some significant changes required to reach the optimum end state. Appendix B presents the recommended CARR reserve fund portfolio for each budget, illustrates the improved alignment with the City's CAM Plan and shows the 2020 forecasted uncommitted balance for each fund. A description of each reserve fund is available in Schedule A of Appendix C.

Similar to the Reserve Rationalization Report in 2018, an external review was undertaken in the hope it would help guide Civic Administration in the recommendations put forth in this report. In 2018, guidance and best practices on reserves was found in the form of publications from the Government Finance Officers Association. During review for this report no standardization of best practices for the structure or target balances of lifecycle reserve funds was found. As such multiple approaches to the CARR reserve fund rationalization process were evaluated. The structure that best aligns separate CARR reserve funds with the asset classes of the City's CAM Plan is the preferred option. In this arrangement each CARR reserve fund will serve as the primary fund to support the City's associated lifecycle renewal capital projects that seek to mitigate the infrastructure gaps within particular classes of asset. Aspects of the recommended approach are visible in municipalities across the province including Mississauga, Hamilton, Kitchener, Vaughan, Cambridge, Guelph, Kingston, City of Waterloo, Waterloo Region, York Region, and to lesser extents Ottawa and Brampton. In many of the cases identified these municipalities have similarly strong asset management practices.

PROPOSED REALLOCATION OF THE CAPITAL INFRASTRUCTURE GAP RESERVE FUND CONTRIBUTIONS

This report recommends a new approach to the tax supported contributions currently funding the Capital Infrastructure Gap Reserve Fund. Once the structure of the CARR reserve funds is approved, Civic Administration will implement a process to reallocate a prorated portion of the

contributions currently being contributed to the Capital Infrastructure Gap Reserve Fund to each of the separate CARR reserve funds. This process will be based on the findings of the CAM Plan and a determination of the areas of highest need. This reallocation will be adjusted each multi-year budget to align with the updated findings of the most recent CAM Plan which is also on a four year cycle coinciding with the timing of the multi-year budget. Any new funding approved through the CAM multi-year budget business case will be allocated proportionately to the separate CARR reserve funds which in turn will be a source of funding for the City's lifecycle renewal capital projects. These lifecycle capital projects are the primary avenue to implement work that addresses the City's infrastructure gap. The CARR reserve funds not covered in the scope of the City's CAM Plan (Library Facilities, Vehicle and Equipment Renewal; RBC Place London Renewal; Police Facilities, Vehicle and Equipment Renewal; and Public Housing Renewal) will have contributions to their respective CARR reserve funds determined as the asset management maturity of the individual board or commission progresses.

Despite the transition to separate CARR reserve funds, the Capital Infrastructure Gap Reserve Fund is recommended to remain open and continue to receive one-time funding via the Council approved Surplus/Deficit and Assessment Growth policies. As per the approved policies, 25% of any year-end surplus and 50% of any excess assessment growth funding is contributed to the Capital Infrastructure Gap Reserve Fund. The balance in this fund will primarily be used as a funding source for unforeseen events or one-time loss of revenue within the City's lifecycle renewal capital plan or other CARR reserve funds. The balance in the Capital Infrastructure Gap Reserve Fund will be available to transfer to each separate CARR reserve fund in accordance with the Council approved Reserve and Reserve Fund Policy as needs may arise. This moderate degree of financial flexibility against the pressures that may materialize in each fund is recommended given the City's evolving asset management maturity.

The prorated tax supported contributions to each separate CARR reserve fund will be transitioned to their corresponding service within the City's existing service program budget structure. Currently the tax supported contributions to the Capital Infrastructure Gap Reserve Fund are budgeted corporately within the Financial Management service. This adjustment will enhance London's approach to service based budgeting; presenting a truer picture of what it costs to deliver a particular service to the community.

The reallocation of the tax supported contributions currently being contributed to the Capital Infrastructure Gap Reserve Fund will remain within the City's property tax supported CARR reserve funds. The rate supported CARR reserve funds in the City's water and wastewater & treatment budgets are not eligible to receive property tax supported funding. Contributions to these rate supported CARR reserve funds will continue to be determined via consideration of the City's utility rates and the 20 year plans that inform development of the rate supported capital plan.

BENEFITS OF THE PROPOSED CARR RESERVE FUND APPROACH

These recommended changes will align administrative processes, simplify the monitoring and reporting of future reserve fund balances and continue to support the City's long-term financial planning as well as the Corporate Asset Management program. Each service area's lifecycle renewal capital budget will be supported by a CARR reserve fund providing consistency and greater transparency in addressing the City's infrastructure investment requirements. This structure of separate and distinct CARR reserve funds offers the following benefits:

- Aligns with the three fundamental goals and principles of the City's Corporate Asset Management Policy: providing sustainable service to City customers; optimizing municipal infrastructure asset value while minimizing lifecycle costs; and managing risks to service delivery.
- CAM Plan alignment will allow the City to better quantify investment in a particular class of asset, enhancing our *Ont. Reg. 588/17: Asset Management Planning for Municipal Infrastructure* reporting. This demonstrates a commitment to continuous improvement of the City's asset management planning and a strong link between asset management and municipal budgeting.
- Stronger governance regarding the implementation of the CAM Plan outcomes will result. As the CARR reserve fund contributions will now be informed by the CAM Plan results, Council will approve these annually via the reserve fund information included in the budget process.
- More transparency for Council and the public regarding the funds available to invest in a particular asset class and also supports public engagement opportunities regarding the CAM Plan.
- The transition to program specific CARR reserve fund contributions enhances the City's service based budget; presenting a truer picture of what it costs to deliver a particular

service to the community.

- Increased transparency of the separate funds will better inform the City’s service areas of the funds available for their lifecycle renewal capital plans during budget development; improving the ability to plan work that helps address the infrastructure gap.

While the above benefits represent a material improvement to the City’s long-term financial management, budgetary practices and governance of public funds, in order to achieve them Civic Administration must undertake additional effort to develop and implement the practices, which will occur over the coming months. Additionally, although one of the main objectives of rationalizing the City reserves and reserve funds is to minimize the number of funds administered, this CARR reserve funds rationalization results in one additional fund, which is a minor administrative burden, significantly outweighed by the benefits achieved.

CARR RESERVE FUND TARGET SETTING

The Reserve and Reserve Fund Policy delegates the authority of setting reserve and reserve fund targets to the City Treasurer or designate, with the requirement that targets must be reported to Council periodically.

Similar to above, after much research and consultation, it has been determined that there is no consistent or standard best practice guidance available regarding target balances that should be held in reserve funds for the lifecycle renewal of municipal assets. Noteworthy approaches were observed in the City of Mississauga and the City of Vaughan where both municipalities have implemented target balances for their respective capital reserve/reserve fund equivalent to one year’s worth of tax-supported capital expenditure requirements. The work to establish this target in the City of Mississauga was supported by BMA Management Consulting Inc. and is noted in their Long Range Financial Plan. In general it became clear through this research that while comparable frameworks are available, efforts to establish targets for lifecycle renewal reserve funds depends greatly on an individual municipality’s financial environment, financial policies and strategies, asset management maturity, risk tolerance, etc. As such, Civic Administration will utilize a measured and conservative approach to ensure the necessary lifecycle renewal savings are set aside while also being mindful of the City’s forecasted infrastructure gap and the need for additional investment in our existing assets.

CARR RESERVE FUNDS MINIMUM TARGET BALANCE

The City is currently responsible for the operation and maintenance of \$21.3 billion worth of municipal assets. Each year through the lifecycle renewal capital budget the assets get maintained, renewed and/or replaced as needed. Supporting these activities are the CARR reserve funds which help smooth spikes in the City’s lifecycle renewal capital plan and subsequently balance the need for additional tax payer funding. Table 1 illustrates the breakdown between the average annual lifecycle renewal (LCR) capital budget (2020-2029) and the forecasted uncommitted 2020 CARR reserve fund balances across the tax and rate supported budgets.

Table 1 – LCR Budgets & Uncommitted CARR Reserve Fund Balances (\$000’s)

Budget	Average Annual Lifecycle Renewal Capital Budget (2020-2029) ¹	2020 Uncommitted Balance ²
Property Tax	\$102,348	\$73,883
Water Rate	\$37,840	\$41,142
Wastewater Rate	\$49,082	\$46,082
TOTAL	\$189,270	\$161,107

1. As presented in the 2020-2023 Multi-Year Budget.
 2. Assumes Appendix B CARR reserve funds are approved.

The City will invest an average of \$189.3 million per year in its infrastructure over the 2020-2029 capital plan that was established during the multi-year budget. Under the new CARR reserve fund structure this capital plan will be supported by \$161.1 million in savings. Balances within these reserve funds will fluctuate as savings accumulate in advance of significant drawdowns. For example, the forecasted uncommitted balances of the Water Works Renewal Reserve Fund during the 2020-2023 Multi-Year Budget period are: 2021 \$44.5 million, 2022 \$50.1 million, 2023 \$22.0 million.

The 2020-2029 capital plan was incorporated into the 2020 CAM Plan Update Report which resulted in a forecasted 10-year infrastructure gap of \$635.0 million; representing an average annual shortfall of \$63.5 million over the 10 year duration. While this circumstance is challenging,

it must be noted that the overall condition of the City’s assets remains “Good”; the level of reserves/reserve funds currently held by the City have contributed to maintenance of the City’s Aaa credit rating; and, since the 2015 budget, the City has increased the average annual lifecycle renewal budget (tax, water, wastewater & treatment) in its capital plan by \$59.2 million (2015-2024 average = \$130.1 million; 2020-2029 average = \$189.3 million). Although the situation is not dire, it does require attention in the form of a measured, long-term, strategic approach to reach a level of annual investment and reserve fund savings that address the City’s infrastructure needs.

At present the City’s official documentation provides guidance on two fronts when considering how to quantify the annual investment required by its infrastructure.

1. Reserve and Reserve Fund Policy – Reserve funds for the full cost of replacement or rehabilitation of major assets will be funded from ongoing operations at a rate which reflects the consumption of that asset by current ratepayers. From a financial perspective this linear annual consumption is closely aligned with the straight line amortization method used for the City’s Tangible Capital Assets.
2. Asset Management Plan – Engineering assessment of an assets lifecycle renewal requirements given its current condition, forecasted deterioration and desired level of service.

Both sources were looked to for guidance on setting the minimum CARR reserve fund target balance. Following is an assessment of these approaches.

Reserve and Reserve Fund Policy – Financial – Annual Consumption

Under this approach annual consumption of the City’s assets over their useful life gives an indication of the reinvestment rate required each year for a particular type of asset owned by the City. For example, an asset with a 50 year useful life is used at an average rate of 2% per year (1 year divided by 50 year useful life). It is noteworthy that this financial approach to establishing an annual reserve amount is very similar to guidance included in a September 2016 presentation by the Municipal Finance Officers’ Association of Ontario titled “*Using Reserves and Reserve Fund Strategies to meet your challenging needs ahead!*” An assessment of the annual reinvestment rates for each of the City’s asset classes, aggregated by each class’s proportionate share of the City’s overall replacement value, results in a weighted average annual reinvestment rate of 1.4% for the City as a whole. This results in a recommended annual reinvestment of approximately \$290.5 million as illustrated in Table 2.

Table 2 – Weighted Average Annual Reinvestment (\$000’s)

Budget	Asset Replacement Value	Weighted Average Annual Reinvestment Rate	Required Annual Reinvestment
Property Tax ¹	\$4,539,549	2.6%	\$116,338
Water Rate	\$6,263,986	1.0%	\$65,228
Wastewater Rate	\$9,776,539	1.1%	\$108,940
Total	\$20,580,074	1.4%	\$290,506

1. Replacement value as of the 2020 CAM Plan Update Report excluding Land which for financial purposes is deemed not to deteriorate with use and is not depreciated in accordance with Generally Accepted Accounting Principles.

It would take a significant amount of time and diligence for the City to increase its average annual lifecycle renewal capital budget from an average of \$189.3 million to a required annual reinvestment of \$290.5 million.

Asset Management Plan – Engineering – Lifecycle Needs, Condition & Levels of Service

From the results of the CAM Plan we know that the City’s lifecycle renewal capital budgets and CARR reserve fund savings do not fully address the needs of the City’s existing infrastructure. Table 3 below outlines the gaps that exist in the City’s current funding and the level required by the CAM Plan to address the infrastructure gap.

Table 3 – 10-Year Forecasted Infrastructure Gap (\$000's)

Budget	10-Year Infrastructure Gap	Average Annual Funding Gap	Average Annual Lifecycle Renewal Capital Budget (2020-2029)	Required Annual Reinvestment
Property Tax	\$616,371	\$61,637	\$102,348	\$163,985
Water Rate	\$0	\$0	\$37,840	\$37,840
Wastewater Rate	\$18,660	\$1,866	\$49,082	\$50,948
Total	\$635,031	\$63,503	\$189,270	\$252,773

Once again it would take a significant amount of time and diligence for the City to increase its average annual lifecycle renewal capital budget from an average of \$189.3 million to the ideal level of annual investment illustrated by the CAM Plan of \$252.8 million. This increase would predominantly be required in the City's tax supported lifecycle renewal capital plan.

While both approaches illustrate the need for patience and consistency as the City works to address the lifecycle renewal needs of its infrastructure, they also provide guidance in the form of generally accepted industry practices in both finance and asset management. However, these approaches result in a far greater financial requirement that cannot be achieved in the short to medium term, which must be considered when concluding the appropriate target for this category of funds.

As such, Civic Administration recommends using the target of a minimum of one year's average annual lifecycle renewal capital budget over the 10 year capital plan as an appropriate starting point and an achievable minimum target for the CARR reserve funds. This approach is justified based on the previously noted facts that reserve fund balances will fluctuate over time, the City's assets are in "Good" condition, current reserve fund balances have contributed to maintenance of the City's Aaa credit rating and they also help to smooth the cyclical characteristics of the capital budget, and the persistence of the infrastructure gap. This approach of having one year's average annual lifecycle renewal capital budget held in reserve will also guard against any potential significant revenue disruptions (such as those that were experienced during the COVID-19 pandemic) that may impact the City's ability to fund its capital plan. Furthermore, this target is consistent with the above noted approaches of the City of Vaughan and the City of Mississauga, noting that the City of Mississauga's implementation of the target received strong support from BMA Management Consulting Inc., a leader in municipal finance and management best practices.

Table 4 demonstrates that the resultant minimum target balance under this approach is approximately \$189.0 million; leaving the City approximately 85% of the way to its minimum target.

Table 4 – CARR Reserve Fund Minimum Target Balances (\$000's)

Budget	CARR Reserve Fund Minimum Target Balance	2020 Uncommitted Balance ¹	Percentage of Minimum Target
Property Tax	\$102,348	\$73,883	72.2%
Water Rate	\$37,840	\$41,142	108.7%
Wastewater Rate	\$49,082	\$46,082	93.9%
TOTAL	\$189,270	\$161,107	85.1%

1. Assumes Appendix B CARR reserve funds are approved.

In setting the minimum target balance for the City's CARR reserve funds, the City Treasurer, by the authority given in the approved Reserve and Reserve Fund Policy, will implement the following:

- 1) That the basis of the minimum target balance for the tax and rate supported CARR reserve funds be equal to one year's average annual lifecycle renewal capital budget over the Council approved Multi-Year Budget Capital Plan.
 - a. Minimum target balances for the CARR reserve funds will be updated coinciding with the Multi-Year Budget cycle.
 - b. The minimum target balance of one year's average annual lifecycle renewal capital budget will be regularly assessed relative to increasing reliability/maturity of infrastructure data and progress on addressing the City's infrastructure gap (i.e. as progress is made in reducing the infrastructure gap, asset condition levels should improve, thereby reducing the amount that may need to be held in reserve funds).

- 2) That a long-term strategy (10 or more years) to reach the minimum CARR reserve fund target balance include the following provisions:
- a. Consistent with the Council approved Surplus/Deficit Policy, that in a year of surplus, 25% of the year-end surplus continue to be contributed to the Capital Infrastructure Gap Reserve Fund.
 - b. Consistent with the Council approved Assessment Growth Policy, in a particular year where the available assessment growth exceeds the growth costs of the City, on a one-time basis, 50% of the surplus continue to be contributed to the Capital Infrastructure Gap Reserve Fund.
 - c. Consistent with the results of the Corporate Asset Management Plan, a prorated portion of the tax supported contributions currently contributed to the Capital Infrastructure Gap Reserve Fund, and in the future determined by the CAM Multi-Year Budget Business Case, will be contributed to each separate CARR reserve fund.
 - i. Where an individual CARR reserve fund is at or over a balance that achieves financial sustainability in the form of no infrastructure gap within a particular class of asset, the allocation to this reserve fund will be redistributed proportionately amongst the other CARR reserve funds that support classes of assets with infrastructure gaps.
 - d. The rate supported contributions currently being contributed to the Water Works Renewal and Sewage Works Renewal reserve funds will continue to be determined via consideration of the City's utility rates, the 20 year plans that inform development of the rate supported capital budgets and the results of the Corporate Asset Management Plan.
 - e. As per the Reserve and Reserve Fund Policy, if discretionary reserves and reserve funds are below established targets, all or a portion of the future debt servicing cost savings resulting from reserve and reserve fund balances applied towards debt substitution shall be considered for future contribution to discretionary reserves or reserve funds at the discretion of the City Treasurer, it being noted that such contributions are subject to Council approval through the City's budget process.
 - f. That the City Treasurer, or designate, periodically report back to Council on target balance performance and target balance rationalization as required by the Reserve and Reserve Fund Policy.

All reserve fund contributions and balances are subject to annual budget approval.

CONCLUSION

The City's CARR reserve funds are an important element of the City's long-term strategic financial plan and financial stability. Civic Administration advises approval of the recommendations of this report to enhance the strength of the City's CARR reserve funds, align the CARR reserve funds portfolio with the Reserve and Reserve Fund Policy and the Corporate Asset Management Plan. Infrastructure financing plans will continue to be refined in future iterations of the 10-year capital plan approved through the budget process.

PREPARED BY:	REVIEWED BY:
JASON DAVIES, CPA, CMA MANAGER III, FINANCIAL PLANNING & POLICY	KYLE MURRAY, CPA, CA DIRECTOR, FINANCIAL PLANNING & BUSINESS SUPPORT
RECOMMENDED BY:	
ANNA LISA BARBON, CPA, CGA MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER	

Cc: Ian Collins – Director, Financial Services
Bryan Baar – Senior Financial Business Administrator
John Millson – Senior Financial Business Administrator

APPENDIX A – Current CARR Reserve Funds (\$000's)

Budget	CARR Reserve Fund Name	2020 Projected Ending Balance
Tax Supported Budget	Capital Infrastructure Gap	\$ 4,893
	City Facilities	32,556
	Courts Administration Repairs and Maintenance ¹	262
	Dearness Home Capital	778
	Golf Course ²	117
	Library Facilities, Vehicle and Equipment	334
	RBC Place London	1,210
	Councillor's Lounge and Marriage Services ¹	59
	Material Recovery Facility	1,527
	Parking Facilities	321
	Police Vehicle and Equipment Replacement	2,597
	Public Art Acquisition ²	698
	Public Art Maintenance	317
	Public Housing Major Upgrades	2,852
	Replacement of Fire Vehicles and Equipment	5,492
	Sanitary Landfill Site	4,733
	Social Housing Major Repairs, Upgrades and Stabilization ²	10,324
Technology Services	6,811	
Vehicle and Equipment Replacement	6,206	
Total Tax Supported CARR Reserve Funds ³		\$82,087
Wastewater & Treatment Rate Supported Budget	Sewage Treatment Plant Capacity ⁴	-
	Sewage Works	46,082
Water Rate Supported Budget	Waterworks for New Capital Project	41,142
Total Rate Supported CARR Reserve Funds ³		\$87,224
Total City CARR Reserve Funds ³		\$169,311

Notes:

- Balances and commitments in the Courts Administration Repairs and Maintenance and Councillor's Lounge and Marriage Services reserve funds have been transferred to the City Facilities Renewal Reserve Fund in Appendix B Recommended CARR Reserve Funds.
- Golf Courses, Public Art Acquisition and Social Housing Major Repairs, Upgrades and Stabilization reserve funds pertain to Special Projects & New Initiatives (SPNI) activities, as such they have been excluded from Appendix B Recommended CARR Reserve Funds and transferred to the SPNI category of funds.
- Forecasted uncommitted 2020 ending balances as of June 30, 2020.
- The Sewage Treatment Plant Capacity Reserve Fund is being closed as it was established to finance past sewage treatment plant capacity upgrades. Future works will be funded from a combination of City Services funding and rate supported debt as necessary.

APPENDIX B – Recommended CARR Reserve Funds (\$000's)

Budget	CAM Plan Alignment	CARR Reserve Fund Name	2020 Projected Ending Balance
Tax Supported Budget Civic Service Areas	Not in Scope of the CAM Plan	Capital Infrastructure Gap	\$ 4,893
	Corporate & Culture Facilities	City Facilities Renewal	32,877
		Public Art Renewal	317
	Long Term Care	Dearness Home Renewal	778
	Recreation	Recreation Renewal ¹	-
	Parking	Parking Facilities Renewal	321
	Fire Fire Facilities	Fire Facilities, Vehicle and Equipment Renewal	5,492
	Solid Waste	Material Recovery Facility Renewal	1,527
		Solid Waste Renewal	4,733
	Information Technology	Technology Services Renewal	6,811
	Fleet	Fleet Vehicle and Equipment Renewal	6,206
	Transportation (Roadways, Structures, Traffic)	Transportation Renewal ¹	-
	Parks	Parks Renewal ¹	-
	Corporate Security & Emergency Management	Corporate Security and Emergency Management Renewal ¹	-
Urban Forestry (Woodlands and Park Trees, Right of Way Trees)	Urban Forestry Renewal ²	2,935	
Tax Supported Budget Agencies, Boards, Commissions	Not in Scope of the CAM Plan	Library Facilities, Vehicle And Equipment Renewal	334
		RBC Place London Renewal	1,210
		Police Facilities, Vehicle and Equipment Renewal	2,597
		Public Housing Renewal	2,852
Total Tax Supported CARR Reserve Funds ³			\$73,883
Wastewater & Treatment Rate Supported Budget	Sanitary, Stormwater	Sewage Works Renewal	46,082
Water Rate Supported Budget	Water	Water Works Renewal	41,142
Total Rate Supported CARR Reserve Funds ³			\$87,224
Total City CARR Reserve Funds ³			\$161,107

Notes:

1. New CARR reserve fund.
2. Formerly Woodland Acquisition & Management, renamed and re-categorized from Special Projects & New Initiatives category of reserve funds.
3. Forecasted uncommitted 2020 ending balances as of June 30, 2020.

APPENDIX C

Bill No.
2020

By-law No. A.- _____

A by-law to establish the Capital Asset Renewal and Replacement Reserve Funds By-law and to govern the administration and management of said funds

WHEREAS subsection 5(3) of the *Municipal Act, 2001*, S.O. 2001, C.25, as amended, provides that a municipal power shall be exercised by by-law;

AND WHEREAS section 9 of the *Municipal Act, 2001*, S.O. 2001, C.25, as amended, provides a municipality with the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority;

AND WHEREAS subsection 10(1) of the *Municipal Act, 2001*, S.O. 2001 C.25, as amended, provides that a municipality may provide any service or thing that the municipality considers necessary or desirable for the public;

AND WHEREAS subsection 10(2) of the *Municipal Act, 2001*, S.O. 2001, C.25, as amended, provides that a municipality may pass by-laws respecting the financial management of the municipality (paragraph 3) and services or things that the municipality is authorized to provide under subsection 10(1) (paragraph 7);

AND WHEREAS it is desirable to establish reserve funds to provide for the lifecycle renewal and replacement costs of infrastructure assets directly-owned by The Corporation of the City of London and its Agencies, Boards and Commissions, as required;

AND WHEREAS it is desirable to establish a consolidated bylaw governing the management and administration of capital asset renewal and replacement reserve funds;

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

SHORT TITLE

CAPITAL ASSET RENEWAL AND REPLACEMENT (CARR) RESERVE FUNDS BY-LAW

1 By-law Statement

1.1 A by-law governing the management and administration of CARR reserve funds.

2 Capital Asset Renewal and Replacement Funds

- a. The bylaws establishing reserve funds listed in Schedule B are hereby repealed.
- b. The reserve funds listed in Schedule A are hereby established or continued.

3. Definitions

In this by-law,

“**budget**” means an estimated financial plan of revenue and expenditure for a set period of time.

“**By-law**” means the Capital Asset Renewal and Replacement Reserve Funds By-law

“**CARR reserve funds**” means the Capital Asset Renewal and Replacement Reserve Funds listed in Schedule A and defined as a category of reserve funds established to provide funding for the lifecycle renewal (major repair and maintenance) and replacement (including disposition) of existing and newly acquired City assets to ensure city-owned assets do not deteriorate over time.

“**City**” means The Corporation of the City of London

“**Corporate Asset Management Plan**” means the City’s multi-disciplinary management techniques (technical and financial) over the lifecycle of municipal infrastructure assets to provide

a specific level of service in the most cost effective manner and manage risks associated with municipal infrastructure assets. This typically includes plans to invest, design, construct, acquire, operate, maintain, renew, replace, and decommission assets.

“**Council**” means the Municipal Council of The Corporation of the City of London

“**infrastructure asset**” means all or part of physical structures and associated facilities that form the foundation of development, and by or through which a public service is provided, such as roadways, bridges, bicycle paths, drinking water systems, social housing, parks, recreation facilities and community centres as well as any other thing by or through which a public service is provided.

“**level of service**” means the statement that describes the output or objectives the City intends to deliver to its customers.

“**lifecycle renewal**” means capital expenditures pertaining to the maintenance, renewal and replacement of the City’s existing and newly acquired assets.

“**Municipal Act, 2001**” means the *Municipal Act, 2001*, S.O. 2001 c. 25 as may be amended

4. Applicability

4.1 The By-law applies to all CARR reserve funds administered by the City, including those established for any of the City’s Agencies, Boards and Commissions (ABC).

4.2 Furthermore, the By-law applies to all City employees who are responsible for the establishment, monitoring, administration and management of the City’s reserve funds.

5. Purpose of CARR Reserve Funds

5.1 The general purpose of CARR reserve funds shall be:

- a) To fund lifecycle renewal (major repair and maintenance) and replacement (including disposition) costs of existing and newly acquired City-owned infrastructure assets contained within the Corporate Asset Management Plan, to ensure these infrastructure assets do not deteriorate over time and continue to meet the level of service specified; and
- b) To fund lifecycle renewal (repair and maintenance) and replacement (including disposition) costs of existing and newly acquired ABC infrastructure assets, to ensure these infrastructure assets do not deteriorate over time and continue to meet the level of service specified; it being noted that ABC infrastructure assets are not contained within the City’s Corporate Asset Management Plan.

5.2 The individual purpose of each CARR reserve fund is set out in Schedule A.

6 Contributions

6.1 The following contributions shall be deposited into the CARR reserve funds by the City Treasurer or their designate:

- a) Council approved tax/rate supported multi-year budget contributions;
- b) Other tax supported contributions per Council approved policies;
- c) City Treasurer approved tax supported Assessment Growth contributions; and
- d) Other non-tax/non-rate supported contributions as approved by Council, or ABC board.

7 Drawdowns

7.1 Before any monies are expended from the CARR reserve funds for the purposes outlined in section 5 of the By-law, approval shall be given by:

- a) Council for City-owned infrastructure assets through the multi-year budget process, or by separate approval of Council; and/or

- b) ABC Boards' for ABC-owned infrastructure assets through the multi-year budget process, or by other Board approved report(s), subject to the approval of the City Treasurer or their designate.

8 Investment of Reserve Fund Balances

8.1 The City Treasurer or their designate, may invest the monies standing in any CARR reserve fund in such securities as are permitted under subsection 418(1), of the *Municipal Act, 2001*, and in so doing, may consolidate the monies standing in a CARR reserve fund with other funds that the City may hold from time to time provided that any earnings derived from the monies standing in the CARR reserve fund shall be accrued to and form part of the CARR reserve fund as permitted under sections 418(3) and 418(4) of the *Municipal Act, 2001*.

9 Maintenance of Reserve Funds

9.1 Notwithstanding that provision may not be made by the Council in the budget estimates of the current or any subsequent year for contributions, or drawdowns to the CARR reserve funds, they shall continue and be maintained, and the Council shall always be taken as considering the CARR reserve funds as necessary so long as this By-law continues in force.

10 Administration

10.1 The administration of this By-law, including the establishment of CARR reserve funds, is delegated to the City Treasurer or their designate.

10 This By-law shall come into force and effect on the date it is passed.

PASSED in Open Council on September 15, 2020.

Ed Holder
Mayor

Catharine Saunders
City Clerk

First Reading – September 15, 2020
Second Reading – September 15, 2020
Third Reading – September 15, 2020

SCHEDULE “A” – CARR Reserve Funds

CARR Reserve Fund Name	Purpose
Capital Infrastructure Gap	To mitigate growth in the infrastructure gap as identified in the CAM Plan and to provide a buffer against unforeseen lifecycle renewal capital expenditures.
City Facilities Renewal	To provide for renewal and replacement expenditures of all City facility assets such as corporate facilities, culture facilities, etc.
Public Art Renewal	To provide for renewal and replacement expenditures of public art in accordance with the Public Art Program.
Dearness Home Renewal	To provide for renewal and replacement expenditures of the Dearness Home and associated equipment.
Recreation Renewal	To provide for renewal and replacement expenditures of recreation assets, such as arenas, aquatics, community centers, attractions, recreation sites, senior centres, etc., excluding golf.
Parking Facilities Renewal	To provide for renewal and replacement expenditures of parking infrastructure assets such as pay stations, parking meters and surface lots, etc.
Fire Facilities, Vehicle and Equipment Renewal	To provide for renewal and replacement expenditures of fire assets such as fire stations and facilities, vehicles and equipment, etc.
Material Recovery Facility Renewal	To provide for renewal and replacement expenditures of the City’s material recovery facility and associated equipment.
Solid Waste Renewal	To provide for renewal and replacement expenditures of solid waste assets, excluding the material recovery facility.
Information Technology (IT) Renewal	To provide for renewal and replacement expenditures of IT assets such as applications and software, end user devices and applications, etc. in accordance with the City of London Information Technology Strategy.
Fleet Vehicle and Equipment Renewal	To provide for renewal and replacement expenditures of fleet assets such as vehicles and equipment, refueling stations, fuel storage tanks, etc.
Transportation Renewal	To provide for renewal and replacement expenditures of transportation assets such as roadways, sidewalks, bike lanes, structures, traffic signals, street lights, etc.
Parks Renewal	To provide for renewal and replacement expenditures of parks assets such as Thames Valley Parkway (including footbridges), play structures, sport fields and courts, parks facilities, etc.
Corporate Security & Emergency Management Renewal	To provide for renewal and replacement expenditures of corporate security and emergency management assets such as communication system infrastructure and equipment, emergency equipment, etc.
Urban Forestry Renewal	To provide for renewal and replacement expenditures of Urban Forestry assets such as street trees, park trees, woodlands, etc.

CARR Reserve Fund Name	Purpose
Library Facilities, Vehicle And Equipment Renewal	To provide for renewal and replacement expenditures of London Public Library assets such as facilities, vehicles and equipment, etc.
RBC Place London Renewal	To provide for renewal and replacement expenditures of RBC Place London assets such as facilities, equipment, etc.
Police Facilities, Vehicle and Equipment Renewal	To provide for renewal and replacement expenditures of London Police Service assets such as facilities, vehicles and equipment, etc.
Public Housing Renewal	To provide for renewal and replacement expenditures of London Middlesex Community Housing assets such as facilities, equipment, etc.
Sewage Works Renewal	To provide for renewal and replacement expenditures of wastewater sanitary and stormwater assets such as sewers, pollution treatment plants, equipment, stormwater management facilities, etc.
Water Works Renewal	To provide for renewal and replacement expenditures of water assets such as watermains, pumping stations, reservoirs, meters, equipment, etc.

SCHEDULE “B” – Existing CARR Reserve Fund By-Laws to be Repealed

Capital Asset Renewal & Replacement	By-Law #
Capital Infrastructure Gap	A.-7513-68
City Facilities	A.-5993-508
Courts Administration Repairs and Maintenance	A.-6004-519
Dearness Home Capital	A.-6258-296
Fire Vehicles and Equipment Replacement	F.-144-552
Golf Course	A.-5550-202
Library Facilities, Vehicle and Equipment	A.-5995-510
Material Recovery	A.-6968-184
Parking Facilities	A.-6970-186
Police Vehicle and Equipment Replacement	A.-7195-351
Public Art Acquisition	A.-6306-34
Public Art Maintenance	A.-6305-33
Public Housing Major Upgrades	A.-6003-518
RBC Place London	A.-7730-218
Sanitary Landfill Site	A.-5174-97
Social Housing Major Repairs, Upgrades and Stabilization	A.-7519-79
Technology Services	A.-6967-183
Vehicle and Equipment Replacement	A.-5994-509
Woodland Acquisition and Management	A.-7526-93
Sewage Treatment Plant Capacity	A.-6068-32
Sewage Works	A.-5353-265
New Capital Water	A.-5477-267