City of Port Coquitlam | Asset Management Plan

2024

Information Services

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1,600	Number of assets on record in the Information Services asset database
$9.6 million	2023 replacement cost of these assets
2010s	Decade with the highest capital expenditures on the acquisition of Information Services assets ($5.9M)
2020s	Decade with the first major forecasted asset replacement spike ($9.2M)
67%	Percentage of assets in poor or worse condition, or with less than 40% service life remaining
$6.4 million	Current age- and condition-based asset backlog
$6.5 million	Current replacement cost of assets with a very high risk rating
$1 million	Annual City spending on capital, maintenance, and operations related to Information Services
14%	System-generated recommended capital reinvestment rate for replacement of Information Services assets ($1.3M per year)
11.5%	Port Coquitlam's actual capital reinvestment rate ($1M per year)

Executive Summary

This asset management plan (AMP) for the City of Port Coquitlam provides a detailed cross-sectional analysis of the City's Information Services assets. It is a continuation of Port Coquitlam's efforts to build a formal and well-structured asset management program that began with the completion of an asset management strategy in 2019. The strategy identified the development of an AMP for each of the City's eight asset portfolios as a key priority. The service areas are: Water, Sanitary, Drainage, Transportation, Parks, Facilities, Fleet & Equipment, and Information Services (IS).

Asset management plans help agencies develop a detailed understanding of their community infrastructure and major capital assets that support daily operations. This data-rich knowledge can support better decision-making and help maintain high but affordable service levels.

Valuation and Condition

Port Coquitlam's Information Services portfolio has more than 1,600 assets on record, including hardware, software and a fibre optic network. The total current replacement cost of all IS assets was estimated at $9.6 million as of 2023, with hardware comprising 49% of the portfolio, followed by software at 33%, and fibre optic network at 19%.

Keeping assets in good condition allows the City to deliver services to residents safely and effectively. Condition data helps to prevent premature and costly rehabilitation or replacements, and ensures that lifecycle activities occur at the right time to maximize asset value and useful life while minimizing costs.

Typically, condition ratings can be established in two ways. The age-based approach simply uses an asset's age as a proxy for its condition: older assets have less service life remaining than newer ones, and are assumed to be in poorer shape. In contrast, in-field condition assessments rely on detailed inspections by qualified staff who assess each asset against robust, technical criteria. Condition data was not available for IS assets at the time of this AMP. However, Condition Assessment Guidelines were developed to support the collection of IS condition data moving forward.

Given the rapid pace of technological change, asset age is often used as the primary factor in determining upgrade and replacement needs for IS assets. This approach suggests that 67% of all Information Services assets, with a current replacement cost of $6.4 million have less than 40% of their service life remaining.

Assets in poor or worse condition may be candidates for replacement in the immediate or short term and should be monitored closely to avoid costly failures that may disrupt service and pose a risk to public health and safety. It is also more economical to keep assets in at least fair or better condition, with smaller and more frequent maintenance. Similarly, assets in fair condition

may require rehabilitation or replacement in the medium term and should be monitored for further degradation in condition.

Lifecycle Management and Long-term Replacement Needs

As with most communities across Canada, Port Coquitlam is facing an aging infrastructure and capital asset stock. Expenditures on Information Services assets averaged $3 million per decade over the last 30 years. Based on assets that are still in service, the largest expenditures were made in the 2010s, totaling $5.9 million, dominated by hardware assets and enterprise software applications. New infrastructure is often funded or constructed by development, or partially funded by external partners. However, the ongoing maintenance and replacement costs are borne by the municipality as the asset owner. The initial cost for new assets is only a fraction of the entire lifecycle cost to operate, maintain and replace them. Consequently, the challenge for municipalities is the considerable lifecycle costs of many assets that now fall on taxpayers alone to fund.

As assets age, their performance diminishes, often more rapidly as they approach the final quarter of their design life. Although most capital assets require ongoing investments to maintain and replace, technological equipment often follows a buy-replace cycle, rather than rigorous lifecycle management. The City's average budget for Information Services totals $1 million annually. This is spent on the inspection, maintenance, and replacement of IS assets, aside from $25,000 per year which is allocated to operational expenditures that maintain acceptable levels of service and efficient operations, but have no direct impact on asset life (internet services, security testing).

Eventually, aging assets and outdated applications must be replaced or updated. Age analysis shows that replacement needs are relatively steady through the forecast period, averaging approximately $12 million per decade. However, given the dynamic nature of technology, the City's IS equipment portfolio is unlikely to remain static over a multi-decade horizon.

Regular upgrades and replacements of IS assets are essential to avoid compatibility issues, minimize security threats, and reduce downtime. This is particularly important for public-facing assets and services. Deferring asset upgrades and replacements can lead to a backlog of needs that can become difficult to overcome.

The City's current age-based backlog is $4.9 million, comprising IS assets that have exceeded their useful life but still remain in service. However, this figure increases to $6.4 million when assets in poor or worse condition or with less than 40% service life are included in the backlog estimate.

Although not all assets forecasted for replacement will need to be replaced, having a multi-decade view of upcoming needs is essential for financial planning. A long-term view allows staff to prepare ahead of time for major capital works, avoid unplanned expenditures, and minimize extreme fluctuations in user fees and tax rates.

Applying a Risk-based Approach

Keeping up with replacement needs poses a substantial challenge for most local governments and public agencies across Canada. A risk-based approach to infrastructure spending can help

prioritize capital projects, refine backlog and future needs, and channel funds to where they are needed most. Rather than taking the worst-first approach, a risk-based approach ranks assets based on their condition/performance as well as their criticality—providing a more complete rationale for project selection.

This AMP applies a quantitative approach to risk for all assets. Data that can best explain the probability of asset failures and help approximate the various consequences of these failure events has been modeled to develop asset risk matrices. As risk is a product of the probability of an asset's failure and the overall consequence of the failure event, a high risk-rating does not necessarily suggest that an asset is unable to safely perform its intended function. Even new assets can carry a high risk rating, given their strategic, financial, economic, and socio-political importance to the community.

This approach identified 45 assets, with a current replacement cost of $6.5 million, that carry a very high risk rating. These include various hardware assets, including PCs, network infrastructure, as well as software assets. An additional 39 similar assets with a combined replacement cost of $946k, carry a high risk rating. While the consequence of failure rating for these asset groups typically ranges from minor to moderate, most have an age-based condition rating of poor to very poor or less than 40% service life remaining, which drives their overall risk rating. Other assets, such as firewalls and network servers, have a severe consequence of failure.

Delivering Affordable Levels of service

Together with risk assessments, levels of service offer another lever that the City can use to deliver high-quality but affordable infrastructure programs. Levels of service describe how well agencies deliver services and whether service quality meets the expectations of the community. They can be measured using key performance indicators (KPIs).

For Information Services, a total of 16 KPIs were selected. This included six KPIs to measure customer levels of service, and 10 to track the City's technical levels of service. Technical levels of service can be thought of as the activities and steps the organization takes (inputs) to deliver customer levels of service (outputs). KPI data can be used to inform decisions to maintain, increase or decrease levels of service. Investments in capital and/or maintenance related activities may be adjusted to reduce the frequency of requests and improve customer levels of service. However, adjusting levels of service must be considered in light of cost, performance and risk.

Residents expect only the highest levels of service. However, as funds are limited, customer satisfaction must be balanced with the cost to deliver services and the risk posed to organization. Higher service levels come at a higher price, and can only be provided by diverting funds from one program to another (tradeoff), or by increasing tax or utility rates. Conversely, lower service levels may reduce funding needs, but can pose greater risk to the organization and the public.

Financial Strategy: Implementing the Asset Management Plan

The financial strategy provides a consolidated analysis for the City's eight service areas. They are grouped based on how assets within each service area are funded. Tax-funded service areas rely on property tax revenues, and include Drainage, Transportation, Parks, Facilities, Fleet & Equipment, and Information Services. Water and Sanitary services are funded directly through their respective utility levies.

Although senior government grants are used to supplement the City's infrastructure spending needs, these are not included in the financial strategy. The aim of the financial strategy is to allow the City to build a sustainable infrastructure program using its own permanent and predictable sources of funding, namely, property taxes and utility levies. It will position Port Coquitlam to gradually eliminate annual funding deficits and achieve full, annual capital funding requirements for both tax- and levy-funded service areas.

Tax-Funded Service Areas

For tax-funded services, the annual average capital requirements total $33.8 million. The City currently contributes $7.9 million annually to its Long-Term General Infrastructure Reserve (LTGIR), creating a combined annual funding deficit of $25.9 million for these six service areas.

To close this gap for tax-funded assets, the City's property taxes would need to increase by 35%, based on 2023 revenues of $74.9 million. As this is not feasible, it is recommended that the City adopt a 15-year phase-in period, requiring a 1.00% annual increase to property taxes each year over this time period. This additional revenue would be fully allocated to the LTGIR. We note that the City already increases annual contributions to the LTGIR by 1% per year based on prior year's levy. As such, the recommended 1.00% increase would be over and above this existing annual increase, for a combined annual increase of 2.00% over the next 15 years.

Drainage Utility

Currently, drainage infrastructure is funded through property taxes. However, there is strong rationale for implementing a dedicated drainage utility levy, and municipalities across Canada have begun to implement this fee structure. Contributing factors include climate change impacts that are driving the need for new or upgraded drainage infrastructure and flood protection, and the higher relative lifecycle costs of drainage assets compared to water and sanitary infrastructure. These expenditures also reduce funds available for other tax-funded assets. If a drainage utility is established, a Long-Term Drainage Infrastructure Reserve (LTDIR) would be created, with annual contributions to this reserve funded through the levy rather than property taxes.

Levy-Funded Service Areas

Similar analysis was conducted for levy-funded services. For water and sanitary, average annual capital requirements total $4.5 million and $4.2 million, respectively. The City currently allocates $1.1 million to the Long-Term Water Infrastructure Reserve (LTWIR), generating an annual funding deficit of $3.4 million. Current allocations to the Long-Term Sewer Infrastructure Reserve (LTSIR) total $850 thousand, also resulting in an annual funding deficit of $3.4 million.

In 2023, Port Coquitlam's water and sanitary revenues totaled $13.1 million and $9.6 million, respectively. To eliminate the funding deficit for each service area, additional contributions are

needed to the LTWIR and LTSIR. For water, this would require a one-time levy increase of 26%, specifically for the purpose of phasing in full funding for water. Similarly, achieving full funding for sanitary services would require a one-time levy increase of 35%.

Consistent with tax-funded service areas, it is recommended that the City adopt a 15-year phase-in period to gradually achieve full funding for water and sanitary services. Under this model, water rates would see an annual increase of 0.55% for each year over the phase-in period; sanitary rates would require an increase of 1.03% annually. As with tax-funded services, these increases are in addition to the existing 1% annual increase for each service area.

For both tax- and levy-funded services, these models seek to eliminate annual funding deficits and achieve full funding. Alternative models are also illustrated, with target funding levels set at 75% and 50% of annual capital requirements. While achieving these lower targets may reduce the impact on property tax rates and utility levies, they may perpetuate infrastructure challenges and reduce service levels. Additional financial, economic, social, reputational, and public health and safety risks may also increase as a result of inadequate funding.

As such, it is recommended that the City endeavour to achieve full funding for both tax- and levy-funded service areas. The recommendations presented do not account for inflation; staff should periodically consider the impacts of inflation on both annual capital expenditures, and additional contributions required to the LTGIR, the LTWIR, and the LTSIR to maintain fiscal strength. Further, addressing the infrastructure backlog requires the strategic use of reserves and the City’s development cost charges. In addition, asset criticality and risk analysis should be used to prioritize projects.

As in the past, periodic senior government infrastructure funding will most likely be available during the phase-in period. This periodic funding should not be incorporated into an AMP unless there are firm commitments in place. However, it can be used to help close the infrastructure gap more quickly, or lower the long-term impact on tax and utility levies. It should be noted that the above recommendations do not include the use of reserves or debt. Depending on the urgency of projects and the impact on levels of services, reserves and debt may be used as supplementary, viable options.

Approach and Methodology

This asset management plan (AMP) was developed as part of the City of Port Coquitlam's current engagement with PSD Citywide. Individual AMPs were developed for each of the City's eight service areas, requiring substantial effort and collaboration over three years.

Developing the Asset Management Plan

The contents in this document were developed in five steps, summarized below.

Build a comprehensive asset inventory

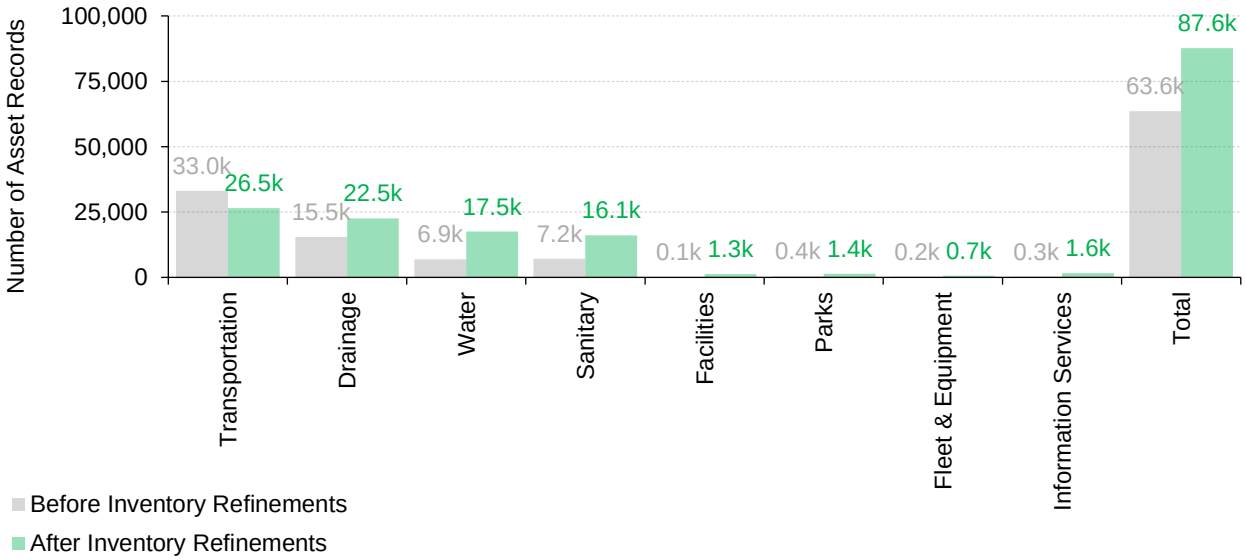
City staff manage multiple large-scale and complex infrastructure and capital asset datasets, found across different departments and in multiple formats. These datasets contain primary and secondary asset data. Primary data includes asset valuations, such as historical and current replacement costs; in-service dates; useful life estimates; quantities; and condition data. It is virtually impossible to produce any asset management-related reporting without this prerequisite information.

Secondary data provides more contextual information about an asset, such as its location, failure history, size, type, material, etc. These fields are used to establish an asset's criticality and develop risk models.

Both datasets were analyzed, refined, and verified through rigorous staff reviews. Identified gaps were closed through desktop research and/or physical in-field data collection by City staff. All new and existing datasets were ultimately consolidated to build a single source of truth (SST). A sharp focus was placed on data accuracy and currency, in particular, asset replacement costs and useful life estimates. These are key inputs for long-term financial planning and are necessary for determining the magnitude and timing of investments.

This finalized data was then uploaded into Citywide, the City's primary asset management software application. The inventory refinements resulted in a 38% increase to the number of total assets, from 63,603 asset records to 87,647. For Information Services, a total of 1,600 assets are currently managed in the inventory.

Figure 1: Number of Asset Records Before and After Inventory Refinements



Conduct asset-level risk assessments and build risk models

Preliminary risk models were developed for each asset class to establish asset risk ratings based on their probability and consequence of failure. Staff reviewed all risk models and provided feedback on the parameters used, including the suitability of parameters and how they were ranked and weighted. Once finalized, these models were built in Citywide and applied to all relevant assets to generate risk matrices.

Compile lifecycle activity data

To better understand the total cost of ownership of all assets, annual operating, maintenance, and capital spends were analyzed. Given their relatively low replacement costs when contrasted against major infrastructure, most IS assets do not undergo rigorous lifecycle management. Instead, they are simply replaced as they approach the end of their useful life, or in coordination with a broader, corporate IS strategy that may include proactive upgrades or changes in service providers.

Compile levels of service data

Four core values were established across each of the City's eight asset portfolios to ensure that the delivery of services are reliable, safe, affordable and practical. To track the performance of Information Services, technical and customer-oriented key performance indicators (KPIs) were selected and populated with data for 2021, as available. A total of 16 KPIs were selected, with six used for customer levels of service, and 10 for technical levels of service.

Develop financial strategy

The preceding content and information are used to develop a financial strategy. The strategy outlines the City's current funding position for each asset category and a path to reach sustainability by closing any identified funding gaps. Development of the strategy involves a comprehensive review of all pertinent financial documents, including audited statements, and collaboration with Finance staff.

Information from asset management plans can be used to determine appropriate levels of funding for capital and operational budgets. Reinvestment rates can be used to determine how much to spend on maintenance and replacement activities each year in order to maximize and extend the life of assets, and plan for their replacement. Key performance indicators can be tracked and used to determine how much to spend on operational activities to maintain acceptable levels of service and efficient operations.

Limitations and Constraints

This AMP required substantial effort by staff. It was developed based on best-available data, and was subject to the following broad limitations, constrains, and assumptions:

1. The analysis in this AMP is highly sensitive to several critical data fields, including an asset's estimated useful life, replacement cost, quantity, and in-service date. Inaccuracies or imprecisions in any of these fields can have substantial and cascading impacts on all reporting and analytics.

2. User-defined and unit cost estimates, based typically on staff judgment, recent projects, or established through completion of technical studies, offer the most precise approximations of current replacement costs. When this isn't possible, historical costs incurred at the time of asset acquisition or construction can be inflated to present day. This approach, while sometimes necessary, can produce highly inaccurate estimates. It was not deployed in this AMP.

3. An asset's condition is essential for estimating its current and future performance, and the investments that may be required to bring it back to a state of good repair. When actual, in-field condition assessment data isn't available, the asset's age can be used to approximate its condition. Although asset age is integral to asset management planning, it can produce an over- or understatement of asset needs. As a result, financial requirements generated through age analysis can differ from those produced by staff using field observations.

4. The risk models are designed to support objective project prioritization and selection. However, in addition to the inherent limitations that all models face, they also require availability of important asset attribute data to ensure that asset risk ratings are valid, and assets are properly stratified within the risk matrix. Missing attribute data can misclassify assets.

5. The AMP is cross-sectional, offering a synopsis of the City's Information Services assets up to a given time period. Some information may become outdated quickly. This can result from new condition assessments, or acquisition or disposal of assets that was not reflected at the time the AMP was developed.

It is quite common for municipalities to experience these limitations as they develop their first asset management plan. Although many data gaps were closed during this project, some may still persist. Closing these data gaps and overcoming limitations is an iterative process, requiring dedicated staff time and other resources. Staff will continue to refine the City's asset inventory to further enhance data quality and integrity for future iterations of this AMP and all asset management reporting.

State of the Infrastructure

The state of the infrastructure (SOTI) provides a detailed overview of City of Port Coquitlam's Information Services assets. It identifies how assets were classified as part of a larger network and system of assets; the current quantity and replacement value of all assets; and, a detailed age and condition profile.

Asset Hierarchy and Data Classification

Asset hierarchy illustrates the relationship between individual assets and their components, and a wider, more expansive network and system. How assets are grouped in a hierarchy structure can impact how data is reported and interpreted. Assets were structured to support meaningful, efficient reporting and analysis. Key details are summarized at the asset segment level.

Information Services contains a variety of different assets, such as telephones, computers, printers, servers, firewalls, software and fibre optic network. These assets were grouped into segments of hardware, software and fibre optics.

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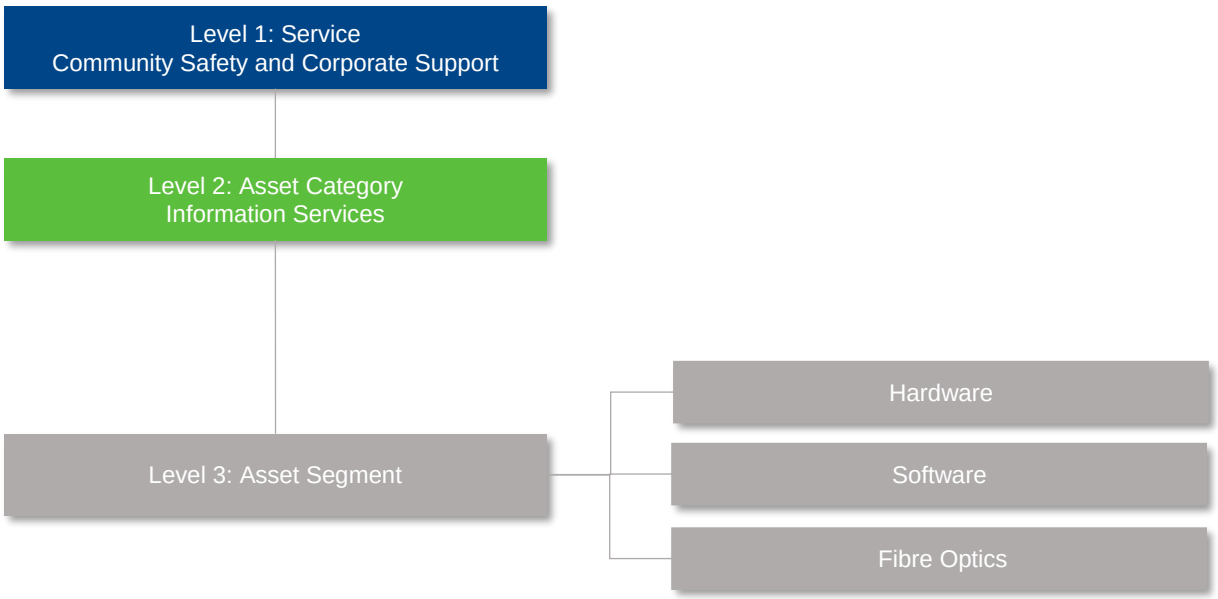
Figure 2: Asset Hierarchy and Data Classification



Inventory and Valuation

The City of Port Coquitlam's Information Services database contains more than 1,600 assets including hardware, software, and a fibre optic network. The total replacement cost was estimated at $9.6 million as of 2023.

Costing Methods

As part of compliance with PSAB 3150, municipalities across Canada were required to establish historical costs for all capital assets. However, asset management analysis and reporting require accurate current replacement costs. Several approaches can be taken to estimate the cost of replacing a like-for-like asset that offers identical or similar service levels. These are illustrated in Table 1.

Table 1: Methods for Establishing Replacement Costs

Costing Method	Description	Accuracy
CPI	Historical or acquisition costs are inflated to current day using available inflation indices. Given its tendency to provide inaccurate estimates for older assets, this approach is used when other methods cannot be applied with reasonable confidence.	Low
Cost Per Unit	Using procurement data from recent projects, including invoices, quotes, and/or tenders, the unit cost of an asset is applied to all asset types (segments) to establish total current replacement costs. This method is typically applied to linear assets.	High
User-defined	Similar to the cost per unit approach, this method also requires procurement data and staff judgement to estimate an asset's current acquisition cost. This method is typically applied to non-linear or point assets.	High

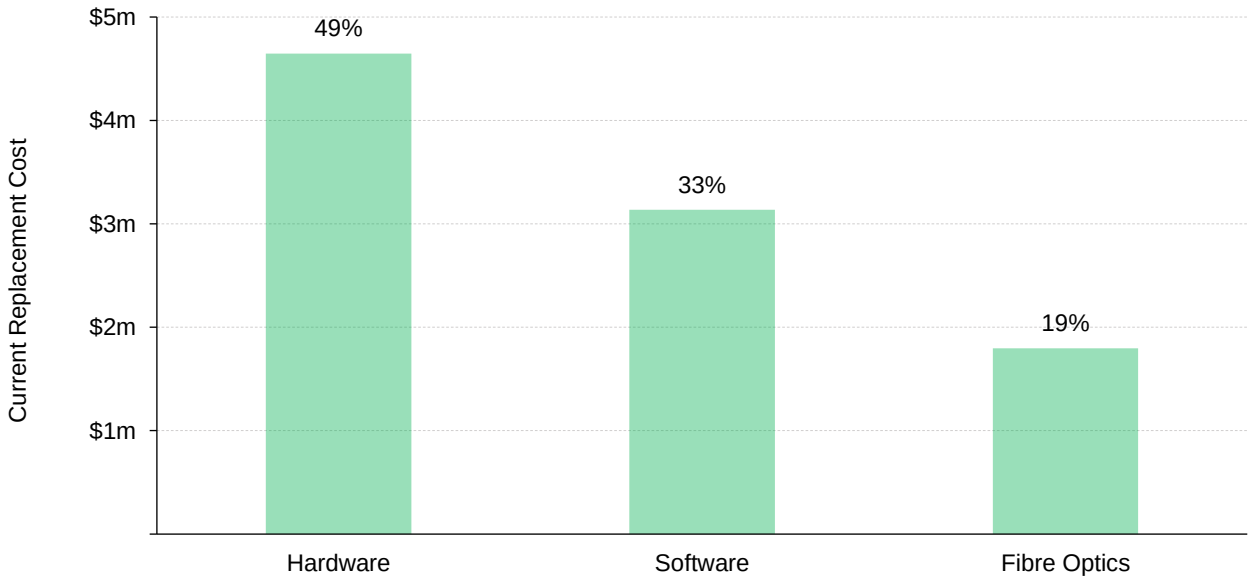
Table 2 summarizes the quantity and current replacement cost of the City's Information Services assets as managed in its primary asset management register, Citywide. Hardware comprises 50% of the IS portfolio, and includes assets such as telephones, computers, printers, servers and firewalls. Software includes programs and licenses such as Agresso, Tempest, Active Net, Laserfiche, Microsoft Office and PoCoMap, which together make up 33% of Information Service assets. Fibre Optic assets include chambers and ducts typically situated in road rights-of-ways.

The replacement costs outlined below were initially established by staff in 2021. They were then increased in 2023 by 10% to reflect prevailing market conditions and account for inflation over the last two years.

Table 2: Detailed Asset Inventory

Segment	Quantity	Replacement Cost	Primary Costing Method
Hardware	986	$4,647,827	User-defined
Software	456	$3,135,848	User-defined
Fibre Optics	206	$1,796,798	CPI
Total	**1,648**	**$9,580,473**	

Figure 3: Portfolio Valuation



Asset Condition

Reliable long-term planning for capital assets hinges on accurate current condition ratings. Condition data helps to prevent premature and costly rehabilitation or replacements, and ensures that lifecycle activities occur at the right time to maximize asset value and useful life while minimizing costs. In the case of IT assets, however, rigorous condition assessments may be limited to major infrastructure and network components. Visual inspections and testing can be conducted as part of routine maintenance and operations.

Source of Condition Data

Typically, condition ratings can be established in two ways. The age-based approach uses an asset's age as a proxy for its condition: older assets have less service life remaining than newer ones, and are assumed to be in poorer shape. In contrast, in-field condition assessments rely on detailed inspections by qualified staff who assess each asset against robust, technical criteria. Both age and in-field condition ratings provide useful data to refine long-term projections.

As no equipment condition assessment data was available, age was used as an estimate for condition for all assets. This is a standard approach that is applied to technology equipment.

Table 3: Source of Condition Data

Asset Category	Asset Segment	% of Assets with Assessed Condition	Source
Information Services	Hardware	0%	Age-based estimates
Total		**0%**	

Condition Assessment Guidelines

Condition Assessment Guidelines were developed for Information Services assets to support the collection of condition data (Appendix A). It is recommended that the guidelines be used to complete some assessments each year, and the collected data be uploaded to Citywide, the City's asset management software.

Condition Rating System

A condition rating scale provides a standardized and descriptive framework that can be used to assign a condition score to all assets, typically on a range of 0-100. This AMP uses a general condition rating scale, aligned with the federal Canadian Core Public Infrastructure Survey.

Table 4: General Condition Rating Scale – All Assets

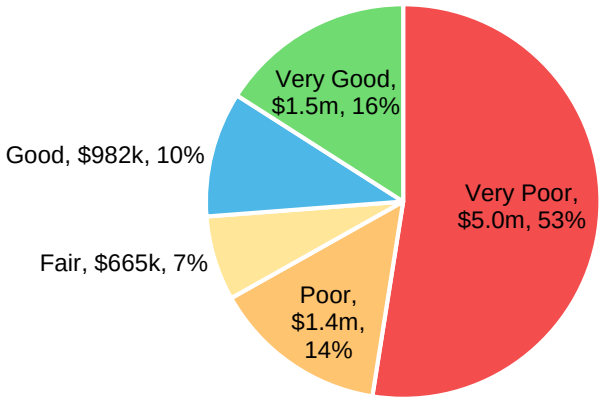
Condition Rating	Description	Criteria	Service Life Remaining (%)
Very Good (80-100)	Fit for the future	Asset is new or recently rehabilitated	80-100
Good (60-80)	Adequate for now	Asset is performing well; minor defects; only regular maintenance required	60-80
Fair (40-60)	Requires attention	Asset is operational, but signs of deterioration evident; some elements exhibit significant deficiencies; renewal upgrade, or replacement required in the medium term	40-60
Poor (20-40)	Increasing potential of service disruption	Asset approaching end of service life; condition below standard; significant deterioration; renewal, upgrade, or replacement in the short term	20-40
Very Poor (0-20)	Unfit for sustained service	Service life is fully consumed; asset remains in service beyond service life; widespread and advanced deterioration; may be unusable and requires immediate replacement	0-20

Projected Asset Conditions

Figure 4 summarizes the replacement cost-weighted condition of all Information Services assets. Based only on age, 67% of assets with a current replacement cost of more than $6.4 million are in poor to very poor condition, or have less than 40% service life remaining. Additional detail is provided in subsequent figures at the asset type or segment level.

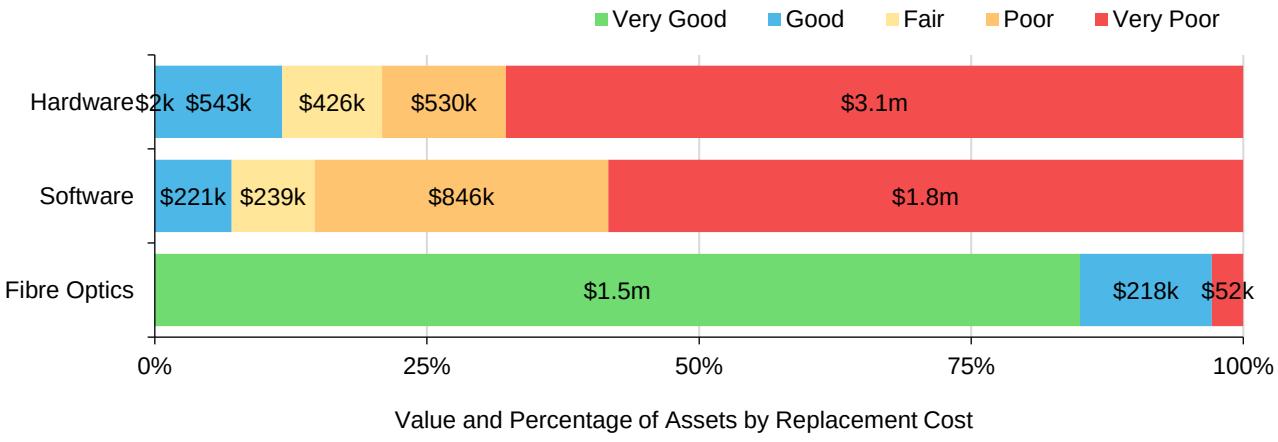
Assets in poor or worse condition may be candidates for replacement in the immediate or short term and should be monitored closely to avoid costly failures that may disrupt service and pose a risk to public health and safety. It is often more economical to keep assets in at least fair or better condition, with smaller and more frequent maintenance. However, most IS assets have relatively short lifespans, and may be upgraded or replaced proactively despite their physical condition ratings.

Figure 4: Asset Condition: All Information Services Assets



As illustrated in Figure 5, based on age data, a substantial portion of hardware and software assets are in poor or worse condition, or have less than 40% useful life remaining. Although software assets do not physically deteriorate, older applications may become obsolete or pose compatibility issues. Based on replacement cost, most fibre optics assets are in good to very good condition.

Figure 5: Asset Condition – By Segment



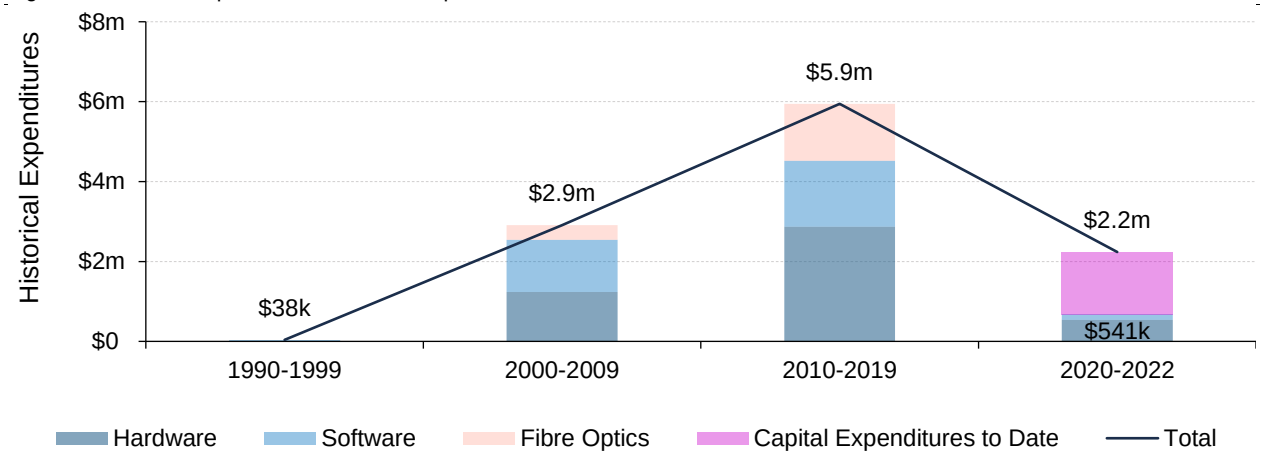
Age Profile

An asset's age profile provides valuable insights and can help identify assets that may be candidates for further evaluation through condition assessment programs; inform the selection of lifecycle strategies; and improve planning for potential replacement spikes. Age is particularly important for IS assets, many of whom face planned obsolescence, with potential compatibility issues.

Historical Asset Expenditures

Figure 6 illustrates Port Coquitlam's historical expenditures on the construction or acquisition of Information Services assets since 1990. The data reflects the City's current or active inventory only; assets that have been disposed of or decommissioned over time are not included. Given their relatively short lifespans, IS assets can go through many buy-replace cycles over the span of a few decades. Although community infrastructure needs and expectations can evolve significantly over decades, understanding past investment patterns can be informative in planning for future needs.

Figure 6: Historical Expenditures on Asset Acquisition



Expenditures on Information Services assets averaged $3 million per decade between 1990 and 2019. Based on assets that are still in service, the largest expenditures were made in the 2010s, totaling $5.9 million, dominated by acquisition of hardware assets. In the current decade, the City has made capital investments of $2.7 million between 2020 and 2022.

Historical spending, when combined with an asset's established design life, can be used to forecast upcoming replacement needs across long-term, often multi-decade time horizons.

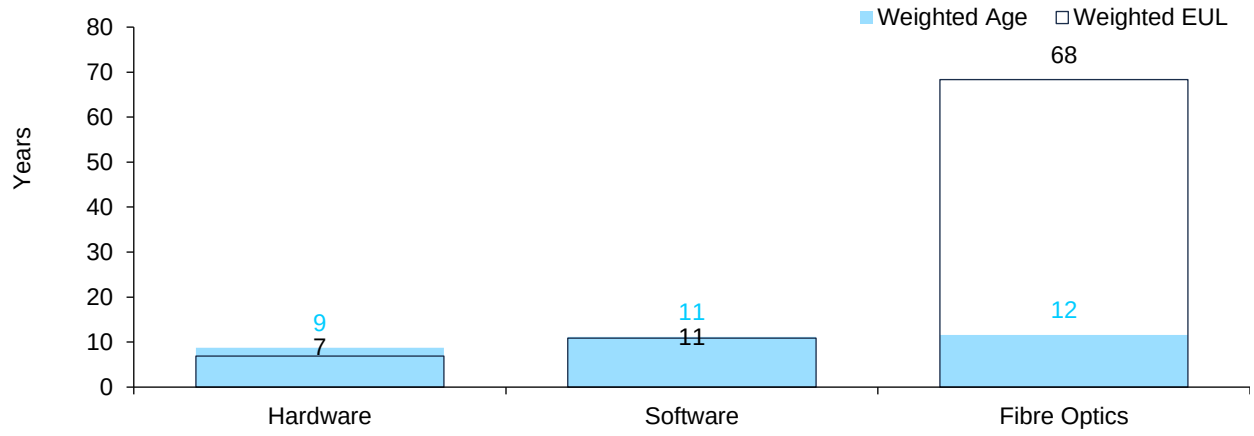
Serviceable Life vs. Current Asset Age

An asset's estimated useful life (EUL) is the serviceable lifespan of an asset during which it can be expected to deliver its intended function safely and effectively. As assets age, their performance diminishes, often more rapidly as they approach the final quarter of their design life.

Determining accurate EULs for all assets is essential for building reliable long-term forecasts and informing condition assessment programs. EULs for all assets were established and verified by staff to ensure they are aligned with broader industry standards, but also reflect typical asset performance and expectations in Port Coquitlam.

Figure 7 plots the average established useful life of Information Services assets against their current average age. Both values were weighted by the replacement cost of individual assets.

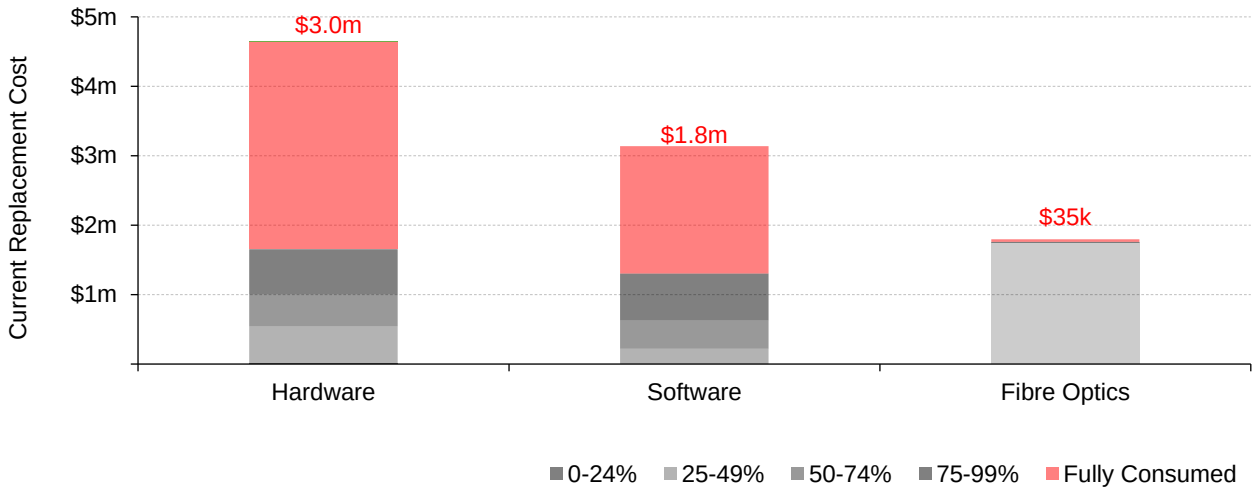
Figure 7: Average Asset Age vs. Estimated Useful Life



Age analysis indicates that most hardware and software assets remain in service beyond their established lifespan. However, fibre optics are still within the earlier stages of their lifespans.

Figure 8 shows a detailed distribution of the City's Information Services assets based on the portion of useful life consumed to date. The distribution shows that approximately 60% of hardware and software assets remain in services beyond their established lifespans. For software assets, reference to useful life consumption may pertain to previously established licensing terms or prior upgrade plans.

Figure 8: Percentage of Estimated Useful Life Consumed



Lifecycle Management

The initial acquisition of assets, particularly major capital assets, represents only a fraction of the total cost of ownership that agencies can expect to incur. Assets require ongoing operations, maintenance, and replacements to ensure they can continue to deliver their intended functions. These reinvestments back into infrastructure are necessary through the life of the asset.

Lifecycle costs include activities that have a direct and tangible impact on the asset's lifespan such as maintenance, repairs, and replacements. Additional operational costs are also needed to maintain customer-oriented service levels and efficient operations.

Information technology equipment is typically subject to a buy-replace cycle, rather than comprehensive and on-going lifecycle management. This ensures that vital hardware and software assets remain current and compatible with evolving technology and service platforms.

Current Lifecycle Framework

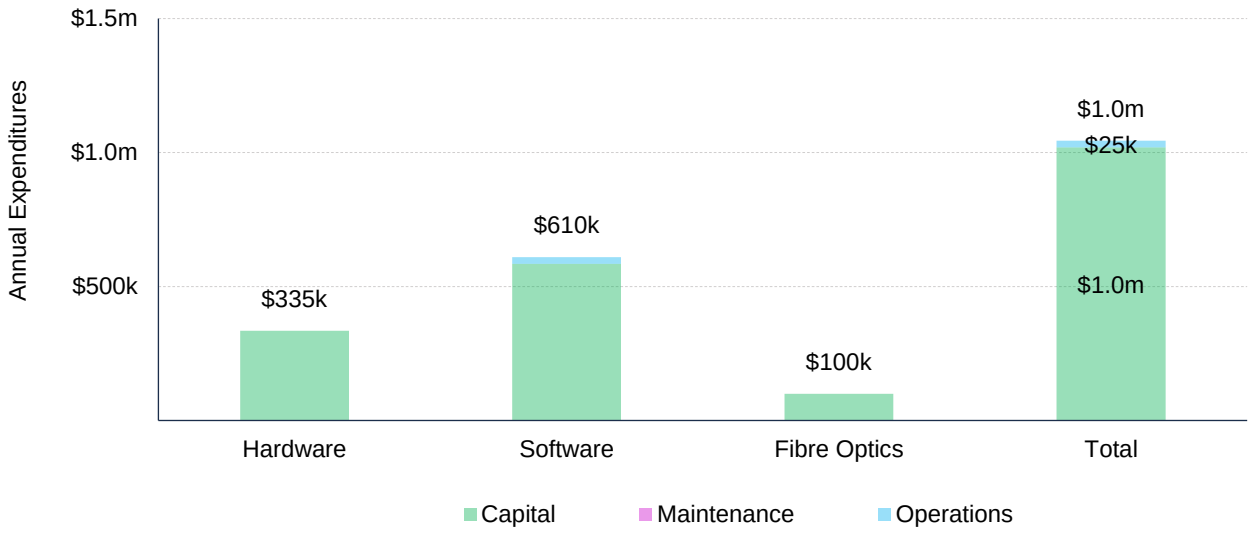
The City of Port Coquitlam's approach to asset lifecycle management is comprehensive. Maintenance, repair and replacement activities are guided by inspections, asset age, and staff judgment through routine monitoring and in alignment with any corporate strategies for broader IS upgrades and service changes. Lifecycle strategies are meant to ensure continuity of operations, minimize downtime, and prevent security issues. This section summarizes the City's lifecycle framework for each asset segment, modeled on Table 5.

Table 5: Components of a Lifecycle Framework

Component	Description		
Segment	Asset segment – hardware, software, fibre optic network		
Activity Type	**Capital** Major repairs, renewals, rehabilitations, upgrades, and replacements	**Maintenance** Activities that have a direct and tangible impact on asset lifespan such as inspections, maintenance and minor repairs.	**Operations** Activities and costs needed to maintain acceptable service levels and efficient operations. No impact on asset lifespan.
Annual Budget	Typical funding available (actual spending may vary from year to year). Expenditure history from 2019-2021 was used to calculate a 3-year average.		
Reinvestment Rate	Annual capital budget as a portion of the total Information Services portfolio replacement cost of **$9,580,473**.		

Figure 9 summarizes annual expenditures by service and expenditure type. Based on a 3-year average between 2019-2021, the City allocates $1.0 million annually on Information Services operations, maintenance, and asset replacements.

Figure 9: Summary of Capital, Operating, and Maintenance Expenditures



Of the $1.0 million annual IS budget, the majority is spent on the inspection, maintenance, and replacement of assets. About $25,000 is allocated annually towards operational expenses that maintain acceptable levels of service and efficient operations, but have no direct impact on asset life (e.g., internet and security testing).

Table 6 outlines the City's lifecycle framework for Information Services assets.

Table 6: Lifecycle Framework

Activity	Segment	Class	2019	2020	2021	Average
Disk Storage	Hardware	Capital	$300,000	$0	$0	$100,000
Software Upgrades	Software	Capital	$100,000	$200,000	$50,000	$116,667
Telephone System	Hardware	Capital	$50,000	$100,000	$0	$50,000
Servers	Hardware	Capital	$150,000	$0	$0	$50,000
Software Licenses	Software	Capital	$385,000	$498,000	$520,000	$467,667
Personal Computers	Hardware	Capital	$50,000	$140,000	80,000	$90,000
Network Infrastructure	Hardware	Capital	$100,000	$100,000	$50,000	$$83,333
Laptop and Tablet Replacement	Hardware	Capital	$50,000	$0	$85,000	$45,000
Fibre Optic	Fibre Optic	Capital	100,000	$100,000	$100,000	$100,000
Sub-Total Capital			$1,285,000	$1,138,000	$885,000	**$1,019,334**
Internet Services	Software	Operations	$10,000	$21,000	$25,000	$18,667
Security Audit and Testing	Software	Operations	$0	15,000	$5,000	$6,667
Sub-Total Operations			$10,000	$36,000	$30,000	$25,334
Total			**$1,295,000**	**$1,174,000**	**$915,000**	**$1,044,668**

Reinvestment Rates

Capital reinvestment rates, expressed as a percentage of asset replacement costs, offer valuable information about the financial sustainability of infrastructure assets. Reinvestment rates can be used to determine annual capital expenditure targets, or allocations to reserves, to ensure asset replacement needs are met as they arise.

Maintenance and operational costs are not reflected in reinvestment rates, but are important considerations for operational budgeting in order to maximize the life of assets while maintaining acceptable levels of service and efficient operations.

Table 7 illustrates two types of reinvestment rates: segment and service area. The segment-level reinvestment is calculated by dividing the total capital expenditures of an asset segment by the replacement cost of that particular asset segment. The service area reinvestment rate is calculated by dividing capital expenditures for each asset segment over the total replacement cost of the service area as a whole. The overall, combined service area reinvestment rate can be used for long-term financial planning and strategic decision-making.

Table 7**Error! Reference source not found.** shows that the City's annual Information Services capital expenditures of $1 million yield an overall, service area reinvestment rate of 10.6%.

Table 7: Current Reinvestment Rates

Segment	Annual Capital Budget	Segment Capital Reinvestment Rate	Service Area Capital Reinvestment Rate
Hardware	$335,000	7%	3.5%
Software	$584,334	19%	6.1%
Fibre Optics	$100,000	6%	1.0%
Total	**$1,019,334**		**10.6%**

Reinvestment Rate Benchmarks

Although there is no scientific or industry consensus on how much an agency should spend or allocate to reserves each year for asset replacements, some benchmarking is available to provide guidance on adequate reinvestment levels, or target reinvestment rates (TRR).

Inconsistencies in methodologies and incomplete details make for imperfect comparisons but can still be very useful. Actual reinvestments also vary considerably across municipalities, and reflect many factors, including current asset conditions, financial capacity, and council priorities.

Canadian Infrastructure Report Card

In 2016, the Canadian Infrastructure Report Card (CIRC) produced an assessment of the health of municipal infrastructure as reported by cities and communities across Canada. The CIRC remains a joint project produced by several organizations, including the Federation of Canadian Municipalities (FCM), the Canadian Society of Civil Engineers (CSCE), the Canadian Network of Asset Managers (CNAM), and the Canadian Public Works Association (CPWA).

The 2016 version of the report card contained recommended reinvestment rates that can serve as benchmarks for municipalities. The report card contains both a range for reinvestment rates that outlines the lower and upper recommended levels, as well as actual municipal averages.

Reinvestment levels range from 1-3% for major infrastructure groups, such as roads, facilities, water, wastewater, and storm. However, no reinvestment rate was available from CIRC specifically for Information Services assets. IS assets typically have short lifespans and are costly investments, producing disproportionately high reinvestment requirements.

System Generated Reinvestment Rates

Using the City's inventory data, Citywide Asset Manager generates the average annual requirements (AAR) associated with each asset. The AAR is calculated by dividing the replacement cost of an asset by its established useful life. This can then be aggregated for all assets to derive category level reinvestment rates.

The AAR serves as a benchmark for annual spending on major capital assets (or allocations to reserves) to ensure that asset replacement needs are met as they arise. AAR value is then divided by the total replacement cost of the service area or category to calculate target reinvestment rates.

Table 8: System-generated Reinvestment Rates

Segment	AAR	System-generated TRR
Road Network	$809,261	17%
Bridges	$459,190	15%
Sidewalks	$29,557	2%
Total	**$1,298,008**	**14%**

For Information Services assets, the average annual capital replacement requirements total $1,298,008 for a system-generated target reinvestment rate of 14%.

Table 9 compares the City's current reinvestment rates against the system-generated reinvestment rates as found in Citywide. As noted above, IS asset data was not available from CIRC or other municipalities at the time of this AMP.

Table 9: Information Services Capital Reinvestment Rate Comparison

Benchmark	Assets Included	Target Capital Reinvestment	Port Coquitlam Capital Reinvestment Rate (Segment)	Port Coquitlam Capital Reinvestment Rate (Service Area)
Citywide Asset Manager	Hardware	17%	7%	3.5%
Citywide Asset Manager	Software	15%	19%	6.1%
Citywide Asset Manager	Fibre Optics	2%	6%	1.0%
Citywide Asset Manager	**All IS Assets**	**14%**		**10.6%**

The analysis shows that Port Coquitlam's overall reinvestment rate of 10.6% is lower than the system-generated reinvestment rate of 14%.

Maintaining adequate reinvestment rates –whether through actual spending on infrastructure programs or earmarking funds for future investments—ensures that service levels are maintained, and replacement needs can be met as they arise.

Capital and Operational Budgeting

Information from asset management plans can be used to determine appropriate levels of funding for capital and operating budgets, which serve different purposes.

Table 10: Purpose of Capital and Operating Budgets

Budget	Role in Infrastructure Programs
Capital	The capital budget includes funds to replace existing assets and acquire new, non-growth related assets. Asset replacements are funded by taxpayers and can be determined by reinvestment rates. Growth-related assets and capacity upgrades are partially funded by Development Cost Charges or external parties, or constructed by development. These are determined by growth projects and infrastructure capacity assessments.
Operational	The operational budget includes funds to maintain assets and deliver services. Maintenance costs include activities and expenditures that have a direct impact on assets by prolonging and maximizing their service life or deferring their replacement. These expenditures are informed by asset management plans and key performance indicators. Operational costs include activities and expenditures that maintain acceptable levels of service and efficient operations but have no direct or tangible impact on asset lifespan.

Capital reinvestment rates can be used to determine annual capital expenditure targets, or allocations to reservices, to ensure asset replacements needs are met as they arise.

Key performance indicators can be tracked and used to determine how much to spend on maintenance and operational activities in order to maximize the service life of assets while maintaining acceptable levels of service and efficient operations.

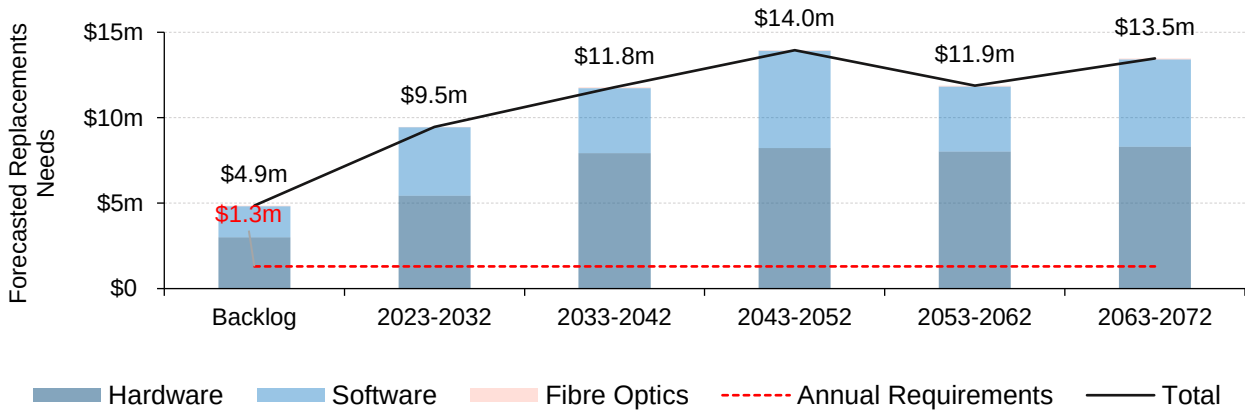
Forecasted Long-term Replacement Needs

In contrast to historical investments in capital assets, Figure 10 illustrates the cyclical short-, medium- and long-term replacement requirements for Information Services assets over the coming decades. The City's average annual requirements for Information Services asset replacements total $1.3 million (red dotted line). Although actual spending may fluctuate substantially from year to year, this figure is a useful benchmark value for annual capital expenditure targets (or allocations to reserves) to ensure projects are not deferred and replacement needs are met as they arise.

The City's current capital expenditures of $1 million per year on IS asset replacements are well aligned with the benchmark of $1.3 million recommended to ensure that replacement needs are met.

The chart shows that replacement needs are relatively steady through the forecast period, averaging approximately $12 million per decade. However, given the rapidly changing and dynamic nature of information technology, the City's IS portfolio is unlikely to remain static over a multi-decade horizon.

Figure 10: Forecasted Long-term Replacement Needs



The chart also shows an age-based backlog of $4.9 million, comprising assets that have reached the end of their estimated useful life. However, the figure increases to $6.4 million when assets in poor or worse condition or with less than 40% service life remaining, are included in the backlog estimate. These assets may also already be candidates for immediate or short-term replacement because of their assumed condition. For IS assets, age is a particularly useful indicator of replacement or upgrade needs given the rapid pace of technological change.

The magnitude of capital needs typically far exceeds what most agencies can afford to fund. It is also unlikely that all assets deemed as candidates for replacement will require replacement. A risk-based approach can be used to direct funds where they are needed most first in order to strategically address age- and condition-based backlogs.

Risk Analysis

The level of risk an asset carries determines how closely it is monitored and maintained, including the frequency of various lifecycle activities, and the investments it requires on an ongoing basis.

Some assets are also more important to the community than others, based on their financial and economic significance, their role in delivering essential services, the impact of their failure on public health and safety, and the extent to which they support a high quality of life for community stakeholders. Although public health and safety is paramount, many factors other than an asset's age or condition must be considered when prioritizing investments in infrastructure and making the most of limited funds.

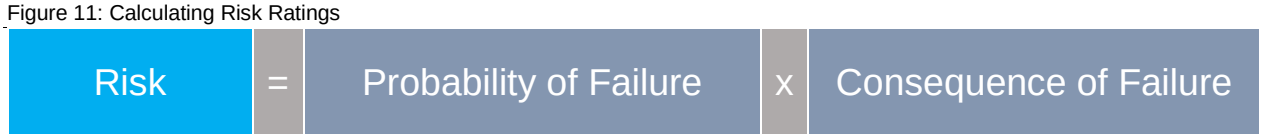
Keeping up with replacement needs poses a substantial challenge for most local governments and public agencies across Canada. A risk-based approach to infrastructure spending can help prioritize capital projects to channel funds where they are needed most. Rather than taking the worst-first approach, a risk-based approach ranks assets based on their condition/performance as well as their criticality—providing a more complete rationale for project selection.

Calculating Asset Level Risk

Risk is a product of two variables: the probability that an asset will fail, and the resulting consequences of that failure event. It can be a qualitative measurement, (low, medium, high) or quantitative measurement (1-5), that can be used to rank assets and projects, identify appropriate lifecycle strategies, optimize short- and long-term budgets, minimize service disruptions, and maintain public health and safety.

The approach used in this asset management plan relies on a quantitative measurement of risk associated with each asset. The probability and consequence of failure are each scored from 1 to 5, producing a minimum risk index of 1 for the lowest risk assets, and a maximum risk index of 25 for the highest risk assets.

Figure 11: Calculating Risk Ratings



Probability of Failure

Several factors can help decision-makers estimate the probability or likelihood of an asset's failure. Typically, these can include the asset's condition, age, and any data on previous performance history. Each of these factors and individual attributes must also be weighted based on how well it can predict and explain the likelihood of asset failure. Most hardware or software is updated before the end of service life to avoid compatibility issues i.e., failures.

Consequence of Failure

The consequence of failure describes the overall effect that an asset's failure will have on an organization's asset management goals. Consequences of failure can range from insignificant and minor, to severe. Failure of a single PC within a non-critical service area may affect one employee and cause inconvenience. However, a network wide data breach across the City may affect all staff and disrupt customer service. Similarly, a cyber security breach of private information could compromise the organization or the public.

The parameters used to describe and measure an asset's consequence of failure will aim to align with the Triple Bottom Line (economic, social, environmental) approach to risk management as well as other considerations including regulatory, health and safety, and strategic.

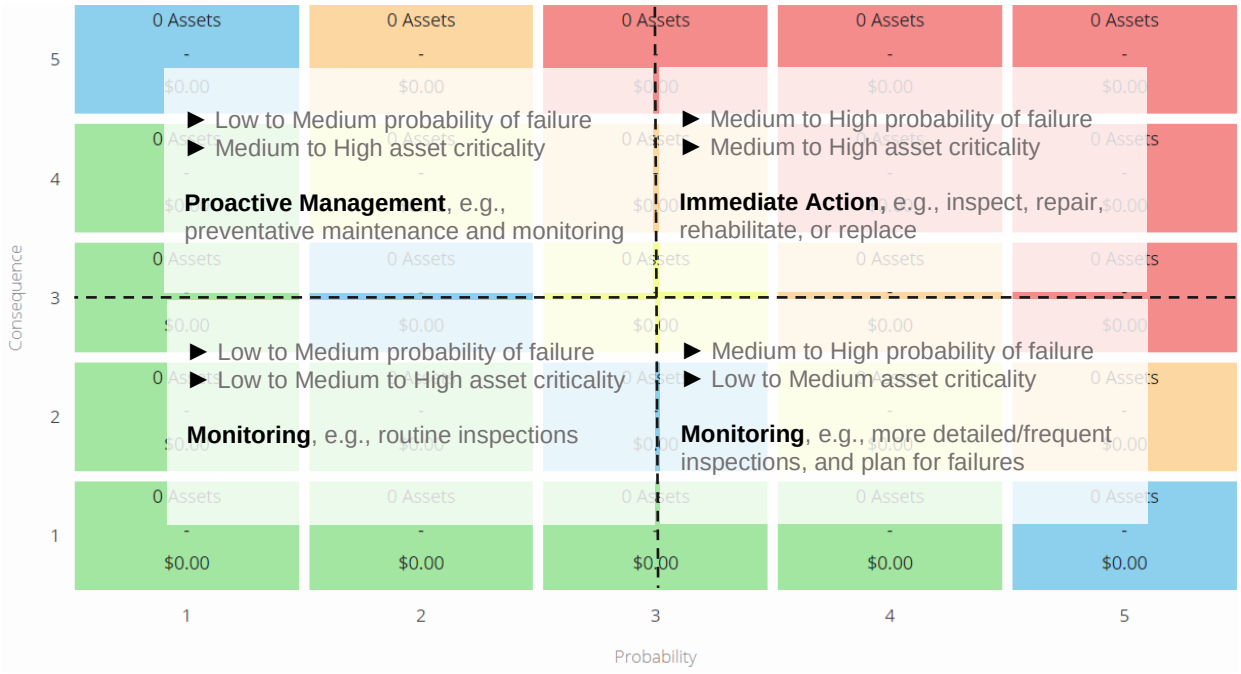
When various types of consequences that the organization and community may face from an asset's failure are identified and properly weighted based on their relative magnitudes, an asset's criticality can be approximated.

Table 11: Types of Consequences of Asset Failure

Type of Consequence	Description
Direct Financial	Direct financial consequences are typically measured as the replacement costs of the asset(s) affected by the failure event, including interdependent infrastructure.
Economic	Economic impacts of asset failure may include disruption to local economic activity and commerce, business closures, service disruptions, etc. Whereas direct financial impacts can be seen immediately or estimated within hours or days, economic impacts can take weeks, months and years to emerge, and may persist for even longer.
Socio-political	Socio-political impacts are more difficult to quantify and may include inconvenience to the public and key community stakeholders, adverse media coverage, and reputational damage to the community and the City.
Environmental	Environmental consequences can include pollution, erosion, sedimentation, habitat damage, etc.
Public Health and Safety	Adverse health and safety impacts may include injury or death, or impeded access to critical services.
Strategic	These include the effects of an asset's failure on the community's long-term strategic objectives, including economic development, business attraction, etc.

Individual risk models are developed for all Information Services assets, and applied to the City's inventory within Citywide to establish asset risk ratings. These risk indices or ratings are then used to stratify assets within a risk matrix, as illustrated in Figure 12.

Figure 12: Generic Risk Matrix



Since risk ratings rely on many factors beyond an asset's physical condition or age, assets in a state of disrepair can sometimes be classified as low risk, despite their poor condition rating. In such cases, although the probability of failure for these assets may be high, their consequence of failure ratings were determined to be low based on the attributes used and the data available.

Similarly, assets in very good condition can receive a moderate to high risk rating despite a low probability of failure. These assets may be deemed as highly critical to the City based on their costs, economic importance, social significance, and other factors.

Continued calibration of an asset's criticality and regular data updates are needed to ensure these models more accurately reflect an asset's actual risk profile.

Risk Models and Matrices

The following section outlines the proposed risk models for Information Services assets. Factors and weights used in both the probability of failure and consequence of failures are outlined, along with the associated ranges that will be used to classify individual assets. Resulting risk matrices are also illustrated for each major asset type, as well as Information Services as a whole.

Two factors were used to help explain potential asset failure. These include the service life remaining of each asset and its age-based condition ratings. In the model below for probability of failure, the age-based condition is presumed to better estimate and explain an asset's likelihood of failure, receiving a high weighting.

Figure 13: Probability of Failure

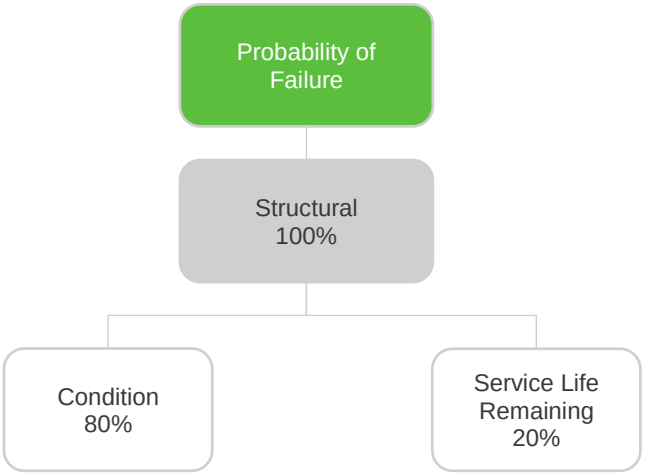


Table 12 outlines the relationship between the probability of failure and the ranges used for each of the above factors. Assets with a condition rating of 20% or less, or with a remaining service life of less than 10%, have the highest likelihood of failure, i.e., 'Almost Certain'.

Table 12: Defining Probability of Failure Ranges

Factor	Range (0-100%)	Probability of Failure
Condition (%)	Greater than 80	1—Rare
	60 - 80	2—Unlikely
	40 - 60	3—Possible
	20 - 40	4—Likely or Probable
	0 – 20	5—Almost Certain
Service Life Remaining (%)	Greater than 40	1—Rare
	30 - 40	2—Unlikely
	20 - 30	3—Possible
	10 - 20	4—Likely or Probable
	0 - 10	5—Almost Certain

The model in Figure 14 outlines the type of potential consequences that may result from failure of a facility asset. Data for Information Services includes the replacement cost and type of each asset. These attributes are used to assist in measuring and quantifying the direct financial, socio-political, and health and safety related consequences of potential asset failures.

Figure 14: Consequence of Failure

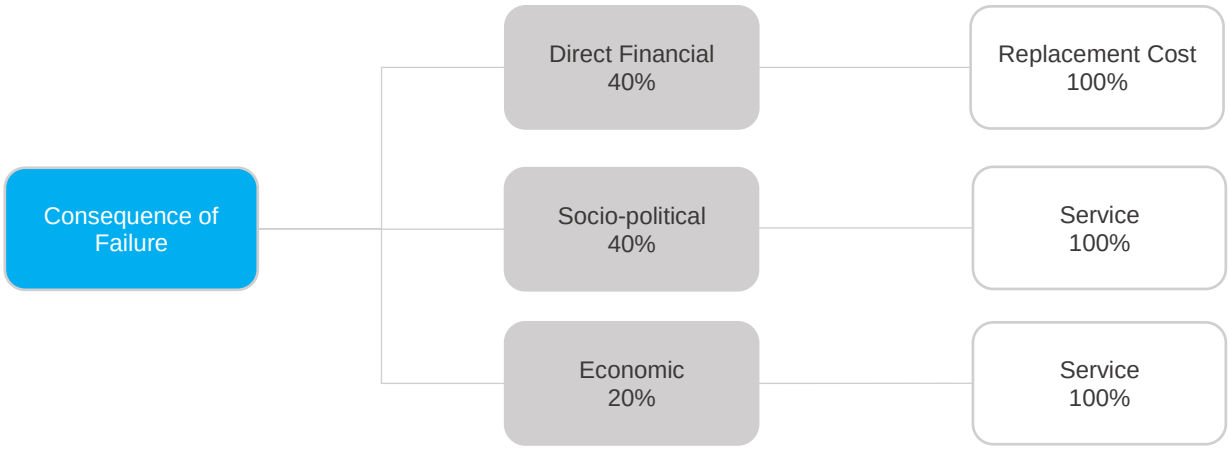


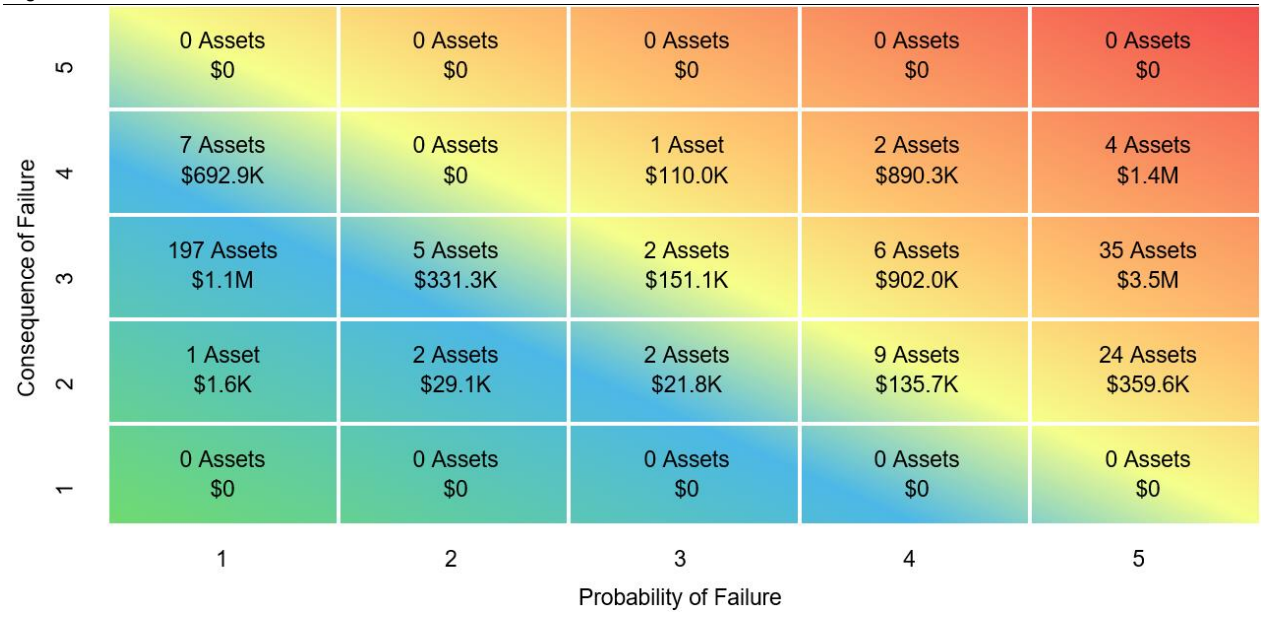
Table 13: Defining Consequence of Failure Ranges

Type of Consequence	Measure	
Direct Financial	Replacement Cost	Consequence of Failure
	Less than $10,000	1—Insignificant
	$$10,000 - $50,000	2—Minor
	$50,000 - $100,000	3—Moderate
	$100,000 - $500,000	4—Major
	Greater than $500,000	5—Severe
Socio-political	Segment	Consequence of Failure
	Hardware	3—Moderate
	Software	4—Major
	Fibre Optics. Firewalls, Servers	5—Severe
Economic	Segment	Consequence of Failure
	Hardware	3—Moderate
	Software	4—Major
	Fibre Optics, Firewalls, Servers	5—Severe

Risk Matrix

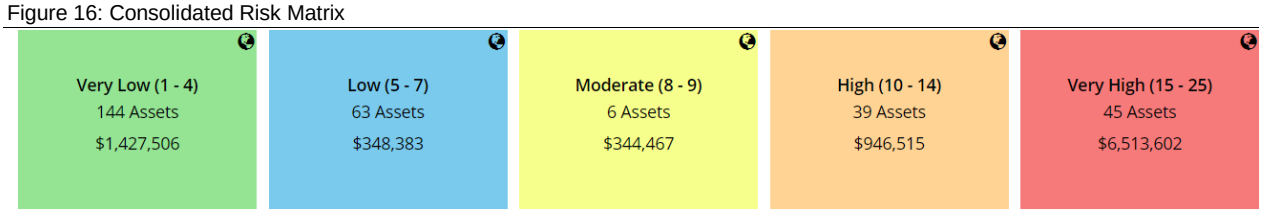
The risk matrix below is based on the previous risk model developed for Information Services. It is generated using available asset data.

Figure 15: Detailed Risk Matrix



The consolidated risk matrix in Figure 16 shows that 45 assets, with a current replacement cost of $6.5 million, carry a very high risk rating. These include various hardware assets, including PCs, network infrastructure, as well as software assets. An additional 39 similar assets, with a combined replacement cost of $946k, carry a high risk rating. Although the typical consequence of failure rating for both of these asset groups ranges from minor to moderate, most have an age-based condition rating of poor to very poor, which drives their overall risk rating.

Figure 16: Consolidated Risk Matrix



Levels of Service

Levels of service (LOS) measure the quality and quantity of service provided, and offer direction for infrastructure investments. They are necessary for performance tracking and reporting. Many agencies attempt to deliver levels of service that cannot be sustainably funded by the existing tax base. This can lead to an eventual drop in quality of service, or increases to tax and utility rates to fund higher service levels.

LOS should be affordable and aligned with the community's long-term vision for itself and the service attributes it most values for different infrastructure programs.

Defining Levels of Service

Levels of service measure the quality, function, and capacity of an asset class or service area. LOS is an internationally recognized concept, employed across a variety of sectors, including public infrastructure. The International Standards Organization's ISO 55000 defines levels of service as the "parameters, or combination of parameters, which reflect the social, political, environmental, and economic outcomes that the organization delivers."

Levels of Service Framework

A typical levels of service framework includes several common components, as outlined in the table below.

Table 14: Components of a Levels of Service Framework

Component	Description and Purpose
Core Value	Typical core values that can be used for infrastructure programs include safety, reliability, efficiency, sustainability, and affordability.
Levels of Service Statement	The LOS statement expands on each core value and converts it into an objective for each service area.
Customer Levels of Service	CLOS are measurements or qualitative descriptions that help **describe the performance of the asset group or service area from an end-user perspective**. CLOS are generally related to residents, but can be used for staff. CLOS measure experiences, e.g., customer satisfaction with quality of recreational services; average travel times between major residential and commercial centres; watermain breaks; sewage backups; and, health and safety incidents.
Technical Levels of Service	TLOS are typically more operational in nature and are designed to measure the **various activities and steps that the organization takes to deliver the customer-oriented levels of service**. They can include data on maintenance activities and different condition assessment programs. TLOS are often seen as inputs whereas CLOS are viewed as outputs. Some KPIs can be both customer and technical oriented.
Key Performance Indicators	For both CLOS and TLOS, suitable key performance indicators (KPIs) must be selected to support reporting and tracking of each.

Core Values and Service Statements

Table 15 outlines four core values developed for service delivery across each of the City's asset portfolios. Service statements expand the values to convert them into broader goals.

Table 15: Core Values and Service Statements

Core Value	Service Statement
Reliable	Service delivery is reliable and provided with minimal service disruption to meet agreed upon levels of service.
Safe	All safety standards and regulatory requirements are met to protect public health, safety, and the environment.
Affordable	Services are affordable, fair, and equitable, accounting for the full cost of service delivery at agreed upon levels of service.
Practical	Resources are prioritized towards the delivery of basic infrastructure and services first.

Selecting Suitable KPIs

Given the complexity of infrastructure and major capital assets, countless customer and technical levels of service KPIs can be used to monitor performance, and ultimately, adjust the cost, performance, and risk associated with different assets. For the purpose of asset management planning, KPIs selected should be higher-level in nature and summarize the performance of the asset group as a whole rather than enumerate hundreds of daily, operational indicators.

The KPIs should also be aligned with corporate goals and initiatives. This maintains a 'line of sight' between staff activities, end-user experiences, and council direction as typically illustrated in strategic planning documents, i.e., measuring what matters most to Port Coquitlam residents. In addition, rather than generating new metrics, the selected KPIs should first maximize data already available. Often, available data can be readily converted into meaningful KPIs.

For Information Services, a total of 16 KPIs were selected. This included six KPIs to measure customer levels of service, and 10 to track the City's technical levels of service. A practical way to distinguish between the two is to think of technical levels of service as the activities and steps the organization takes to deliver customer levels of service.

Table 16: Customer Levels of Service

KPI	2018	2019	2020	2021	Trend
Capital					
Percentage of IS assets in poor or very poor condition, or with less than 40% service life remaining	*	*	*	67	→
Maintenance					
Number of public facing IS incidents	*	*	*	38	→
Hours of unplanned downtime due to IS incidents	*	*	*	43	→
Number of IS hardware requests	*	*	*	TBD	→
Number of IS software requests	*	*	*	TBD	→
Number of cyber threats prevented	*	*	*	3,024	→

Table 17: Technical Levels of Service

KPI	2021	Average Annual Budget
Capital		
Enterprise Systems & Software Licenses (# support contracts/applications)	43	$520,000
Laptop and Tablet Replacement (# of laptops/tablets)	21	$85,000
Inspections and condition assessments	2	$0
PC Replacements	40	$80,000
Software Purchases	1	$50,000
Network Infrastructure Replacement (cables, transceivers, connectivity devices)	NA	$50,000
Fibre Optic	NA	$100,000
Annual capital expenditures		$885,000
Operations		
Internet Services		$25,000
Security Audit and Testing		$5,000
Annual operating expenditures		$30,000

Levels of Service Analysis

KPI data can be used to support decisions to maintain, increase or decrease levels of service. As customer levels of service data is collected and tracked for IS, investments in capital and/or maintenance related activities may be adjusted to reduce the frequency of requests and incidents. Trends should be considered in further detail with knowledgeable staff to understand potential influences and context before making decisions.

For example, expenditures or service level performance may be affected in a given year by material pricing, supply chain issues, staff absences, or contractor availability. These factors should be taken into account to determine if the effects are temporary, or longer term and potentially warranting adjustment. Adjusting levels of service must also be considered in light of cost, performance and risk, as further explained below.

Balancing Cost, Performance and Risk

Levels of service are fundamentally about balancing three key parameters: cost, performance, and risk. Any adjustment to one of these parameters will have a direct impact on the other two. High performance and low risk may require a substantial budget. In contrast, if constituents can tolerate lower performance from community assets, they incur a lower cost but assume a higher risk.

Table 18 briefly outlines how these parameters change when maintenance or capital related service levels are maintained, increased, or decreased. Those service levels have a direct impact on assets by maximizing their service life or deferring their replacement.

Table 18: Balancing Cost, Performance, and Risk

Levels of Service Goal	Impact on Cost	Impact on Asset Performance	Impact on Risk
Maintain	Minimum impact on cost; possible escalation due to market conditions	No expected change beyond typical deterioration	No expected change in asset risk rating
Increase	• Costs increase due to more frequent maintenance, rehabilitation, and/or replacement cycles • Tax rates and utility rates may increase • Increasing asset capacity or enhancing functionality may further escalate costs	• Assets are maintained at a higher condition, delivering higher expected performance • User experience and quality of life may improve	• With a more robust lifecycle program, asset failure may be reduced, resulting in a lower risk rating • User safety and environmental protection may improve
Decrease	• Costs may decrease as lifecycle programs are reduced and services are eliminated	• Assts may deteriorate faster and fail earlier than expected due to deferral of maintenance needs • User experience and quality of life may worsen	• Deferred maintenance may lead to higher failure rates, resulting in higher exposure • User safety and environmental protection may decrease

A sustainable levels of service approach requires municipalities to periodically recalibrate these parameters. Ultimately, trade-offs must be made between different programs based on demand, and between service quality and cost to constituents.

Financial Strategy

Each year, the City of Port Coquitlam makes important investments in its infrastructure to ensure assets deliver their intended function safely and efficiently. These efforts contribute to making Port Coquitlam a highly desirable place to live. The 2023 ranking of The 100 Most Livable Cities in Canada by the *Globe and Mail* placed the City at 17th.

Given the magnitude of infrastructure needs, it is common for municipalities, including Port Coquitlam, to experience annual shortages in funding. This creates annual funding deficits, requiring projects to be deferred to later years. This, in turn, creates long-term infrastructure backlogs.

Achieving full-funding for infrastructure programs is a substantial challenge for municipalities across Canada. Closing annual funding gaps and avoiding long-term backlogs can take many years.

This financial strategy provides a consolidated analysis of the City's eight service areas, and is designed to support the implementation of asset management plans and gradually eliminate gaps identified in the City's annual reinvestment rates.

The financial strategy also provides support for the development of 10-20 year capital plans for each asset group with the City's asset management program.

Approach and Methodology

The assets included in the City of Port Coquitlam's eight service areas have a combined 2023 replacement cost of $1.9 billion, as illustrated in Table 19 below. The table also summarizes the average annual requirements (AAR) for each service area, and the equivalent system-generated target, capital reinvestment rate (TRIR). The City's overall AARs total $42.5 million, generating an equivalent reinvestment rate of 2.2%. To put this differently, the City should invest, on average, 2.2% of the overall current replacement costs of its infrastructure portfolio back into these assets to remain current with replacement needs.

Table 19: Service Area Replacement Costs and Target Reinvestment Rates

Service Area	Replacement Cost	Average Annual Requirements (AAR)	System-generated Target Capital Reinvestment Rate (TRIR)
Transportation	$533,082,256	$15,648,055	2.9%
Drainage	$446,128,207	$7,406,986	1.7%
Water	$303,278,014	$4,541,037	1.5%
Sanitary	$266,373,836	$4,214,139	1.6%
Facilities	$262,262,312	$4,561,458	1.7%
Parks	$41,088,943	$1,682,841	4.1%
Fleet & Equipment	$33,488,624	$3,156,517	9.4%
Information Services	$9,580,473	$1,298,008	13.5%
Total	**$1,895,282,667**	**$42,509,042**	**2.2%**

The overall and individual, service area reinvestment rates serve as critical benchmarks, ensuring that asset replacements needs are met as they arise, and projects are not deferred. However, this 'full funding' is difficult to achieve for most municipalities across Canada, leading to annual infrastructure deficits, which can in turn accumulate to create long-term infrastructure backlogs.

The purpose of the financial strategy is to position Port Coquitlam to meet its target reinvestment rates as outlined above. This is done by examining the City's current funding levels for each service area, quantifying funding gaps, and identifying a roadmap to close these gaps. To ensure fiscal prudence, only those funding sources considered sustainable are integrated with the strategy. The concept of sustainable funding is discussed in more detail.

Current Financial Planning Framework

Port Coquitlam is a growing city. The community saw a growth rate of 4.9% between 2016 and 2021, and has a current population of more than 61,000 residents. Different funding and financing mechanisms are used to ensure that the City's infrastructure portfolio can continue to meet the needs of a growing and evolving population. The focus of the asset management plans and the financial strategy is the City's current asset portfolio.

Capital Budget

The City's capital budget is a forward-looking document that is used to plan for long-term investments, including infrastructure, that provide benefits to Port Coquitlam over time and support service delivery. The capital budget is traditionally funded from tax levies, user fees, senior government transfers and grants, development cost charges (DCCs), debt, and reserves. These funds are used to cover the expenses of maintenance, replacement, and expansion of the asset base which is tied to the level of services provided by the City.

The distinction must be made between the replacement of exiting assets and investments in new assets, including upgrades and expansions. Asset management plans and this financial strategy pertain to the replacement of existing assets. New assets are purchased, built, developed, or contributed to or by the City to specifically accommodate the growth of population or the expansion of services or service levels.

Debt

Debt can be used as a strategic funding source for major public works. The benefits of leveraging debt judiciously for infrastructure planning include:

- the ability to stabilize tax and user rates when dealing with variable and uncontrollable factors,
- equitable distribution of the cost and benefits of infrastructure over its useful life,
- a secure source of funding,
- the ability to proceed with projects sooner than waiting to save enough in cash or grants to pay for the project all at once and,
- flexibility in cash flow management.

Following an initial reduction in interest rates amid the Covid-19 pandemic, interest rates have risen steadily since. As a result, the cost of servicing the debt through interest payment has

increased substantially, making its use for infrastructure projects less compelling. The following graph shows the historical changes to Municipal Finance Authority of BC (MFA) lending rates[1].

Figure 17: Historical MFA Lending Rates[2]

Port Coquitlam currently has $17.6 million (2023 opening balance) of net debt outstanding for the Coast Meridian Overpass. This debt has an annual principal and interest payments of $1.0 million, which are expected to continue until 2039. The City also has outstanding debt for the Port Coquitlam Community Centre which currently has $48.8 million outstanding and carries an annual principal and interest payment of $2.3 million, which expires in 2049.

The funding options outlined in this plan allow Port Coquitlam to fully fund the long-term infrastructure replacement requirements without further use of debt.

[1] https://mfa.bc.ca/clients/long-term-borrowing: "New Issues are often funded by issuing a 10 year bond, locking in a fixed interest rate for ten years. As clients may borrow for up to thirty years, loans longer than ten years a typically refinanced every five years, following the initial ten years."

[2] The illustration does not consider actuarial adjustments.

Senior Government Support

Given the magnitude of investments needed in infrastructure, municipalities often rely on senior government programs to supplement their funding for capital projects and capacity building initiatives. These programs are subject to change with evolving federal and policy landscape, and therefore, create some vulnerability for municipalities that may rely heavily on these funding streams.

Of particular importance is the Canada Community-Building Fund (CCBF), formerly the federal Gas Tax Fund. In the past, municipalities have considered the CCBF a sustainable funding source used for infrastructure projects. Administered through a 10-year tripartite agreement (2014-2024) with the Government of British Columbia and the Union of British Columbia Municipalities (UBCM), the CCBF provides all municipalities with a permanent, predictable, and indexed source of infrastructure funding.

Port Coquitlam received $241k from the CCBF in 2022. Although historically stable, the City should actively monitor and evaluate the potential repercussions of a newly elected government on the CCBF and other senior government funding streams, considering the potential impact on funding priorities, allocations, and eligibility criteria.

While the structure of the transfers may evolve, both the province and federal governments continue to provide reliable sources of funding for asset management and infrastructure programs. When possible, transfers should be leveraged by the City to address the backlog of existing assets that have exceeded their service life.

Sustainability

Although senior government transfers—both recurring such as the CCBF, and one-time, project-specific grants and transfers—can be used to augment the City's fiscal capacity, this funding strategy relies only on the City's own-source revenues. These are limited to property taxes and utility levies. While a stable funding stream, the City typically earmarks the CCBF to fund new assets; as such, it was not integrated with the financial strategy. However, the City should consider allocating these funds to the replacement of existing assets, at least until the backlog has been addressed.

Reserves

Reserves play a critical, often primary, role in long-term financial planning for infrastructure investments. The benefits of having reserves available for infrastructure planning include:

- the ability to stabilize tax and user rates when dealing with variable and sometimes uncontrollable factors;
- financing one-time or short-term investments;
- accumulating the funding for significant future infrastructure investments;
- managing the use of debt; and,
- normalizing infrastructure funding requirement.

Long-Term Infrastructure Reserves

The City of Port Coquitlam's dedicated, long-term infrastructure reserves include the Long-Term General Infrastructure Reserve (LTGIR), the Long-Term Sewer Infrastructure Reserve (LTSIR), and the Long-Term Water Infrastructure Reserve (LTWIR). These reserves are funded through property taxes and utility levies. The current balance of these reserves totals $24.1 million.

Table 20: Long-Term Infrastructure Reserve Balances

Reserve	Balance
Long-Term General Infrastructure Reserve (LTGIR)	$15,688,227
Long-Term Water Infrastructure Reserve (LTWIR)	$4,816,463
Long-Term Sewer Infrastructure Reserve (LTSIR)	$3,619,233
Total	**$24,123,923**

Since 2010, the City has consistently made annual contributions, calculated as the prior year's amount plus an additional 1% of the prior year's taxation or utility levy. The intent of these reserves is to ensure the City can fund future asset replacement requirements in the short and long terms. This is accomplished through annual transfers to the Capital Reserves to complete work identified in the Annual Capital Programs.

Capital Reserves

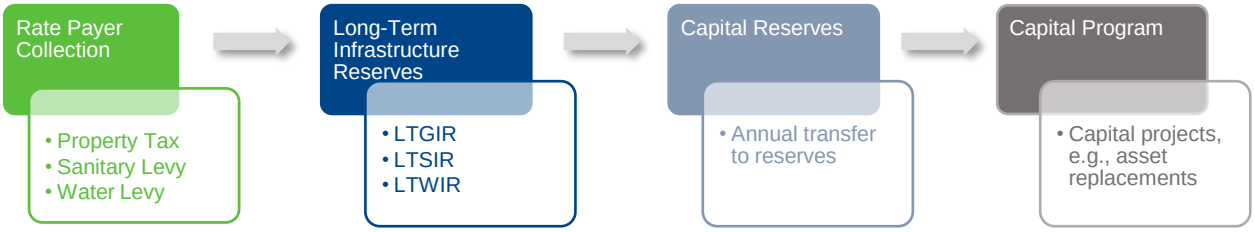
In addition to the long-term infrastructure reserves, Port Coquitlam also has other capital reserves used to implement the capital program. These reserves are funded by property taxation, utility levies, and the sale of land or assets. While these are predominately intended to support either new assets or the expansion of existing assets, the City can still draw from these reserves to address the backlog in the short term and support the reduction of any deficits over time. The forecasted balance of these reserves as of December 31, 2023, is $25.3 million.

Table 21: Capital Reserve Balances

Reserve	Balance
General Capital	$2,712,053
Sewer Infrastructure	$1,017,166
Water Infrastructure	$14,888,201
Land Sale	$3,326,828
Equipment Replacement	$2,079,097
Cart Replacement	$1,254,886
Total	**$25,278,231**

The figure below illustrates the flow of funding at the City, from collection of property taxes and utility levies, to implementation of the capital program.

Figure 18: Funding Flow



Since the annual capital program is funded through reserves, the aim of the financial strategy is to synchronize long-term infrastructure reserve contributions with the average annual requirements identified for the eight service areas, as illustrated in Table 19. As such, the recommendations focus on the incremental increases to the annual long-term infrastructure reserves contributions.

Development Cost Charges (DCC) Program

Port Coquitlam's DCC bylaws are regulated by the province through the *Local Government Act*. The City uses DCCs collected to finance a portion of upcoming infrastructure costs associated with the growth of new developments. The program is designed to ensure that the benefiters (new development) contribute to the installation costs.

The City's DCC Program encompasses infrastructure earmarked for both replacement and expansion. Recognizing that existing rate payers may receive benefit from the construction or expansion of infrastructure, the capital costs are partially reduced from DCC collections and supplemented by alternative funding sources. Because of this, the DCC contributions are limited to fund specified infrastructure projects used to establish the DCC fees in the in the Bylaws.

As such, whenever possible, the DCC contributions should be leveraged by the City to provide funding for assets slated for replacement and expansion when addressing the current asset backlog. This maximizes the value of the investment by achieving two goals with one asset replacement: replacement for condition/age and upgrading for additional capacity.

Achieving Reinvestment Rate Targets

This section identifies annual infrastructure and annual funding deficits for each of the City's eight service areas. The system-generated average annual requirements are contrasted against two figures. The first is the City's actual annual reinvestments into its assets, calculated by aggregating capital expenditures on various lifecycle programs for each service area. The second is its annual contributions to long-term infrastructure reserves (LTIRs).

We make a distinction between actual reinvestments on infrastructure each year which may be funded and financed through various streams, and annual contributions to the LTIRs funded only through sustainable sources, i.e., property taxation or utility levies . The recommendations in the financial strategy hinge on the latter, i.e., adjusting annual contributions to the LTIRs to achieve target reinvestment rates.

Separate analysis is presented for tax-funded and rate-funded service areas. Tax funded service areas are funded by property taxes and collected as general revenue. Rate funded service areas are those funded by the collection of utility fees. Tax-funded service areas include: Drainage, Transportation, Parks, Facilities, Fleet & Equipment, and Information Services. Utility Levy -funded service areas include: Water and Sanitary Services.

Tax-Funded Service Areas

As illustrated in Table 22, the City's average annual requirements for its six tax-funded service areas total $33.8 million. Annual capital expenditures total approximately $15 million for these assets, creating an infrastructure deficit of $18.8 million.

Table 22: Comparing Average Annual Requirements Against Current Capital Reinvestments

Service Area	Average Annual Requirements	Current Capital Reinvestments	Annual Infrastructure Deficit
Drainage	$7,406,986	$2,500,000	$4,906,986
Transportation	$15,648,055	$5,784,500	$9,863,555
Parks	$1,682,841	$2,150,000	$(467,159)
Facilities	$4,561,458	$583,112	$3,978,346
Fleet and Equipment	$3,156,517	$2,922,167	$234,350
Information Services	$1,298,008	$1,019,334	$278,674
Total	**$33,753,865**	**$14,959,113**	**$18,794,752**

The current capital reinvestments listed above are funded through both own-source revenues, e.g., property taxation, and other streams. Table 23, however, quantifies the City's contributions to the LTGIR. The City's ability to make consistent contributions to the LTGIR will determine how sustainable infrastructure programs are. These contributions will build up the LTGIR and are necessary for gradually eliminating the annual infrastructure deficit, as well as managing persistent backlogs.

LTGIR contributions are funded from the City's property taxation revenue—the primary, predictable, and sustainable (See the Sustainability section) source of funding for infrastructure needs.

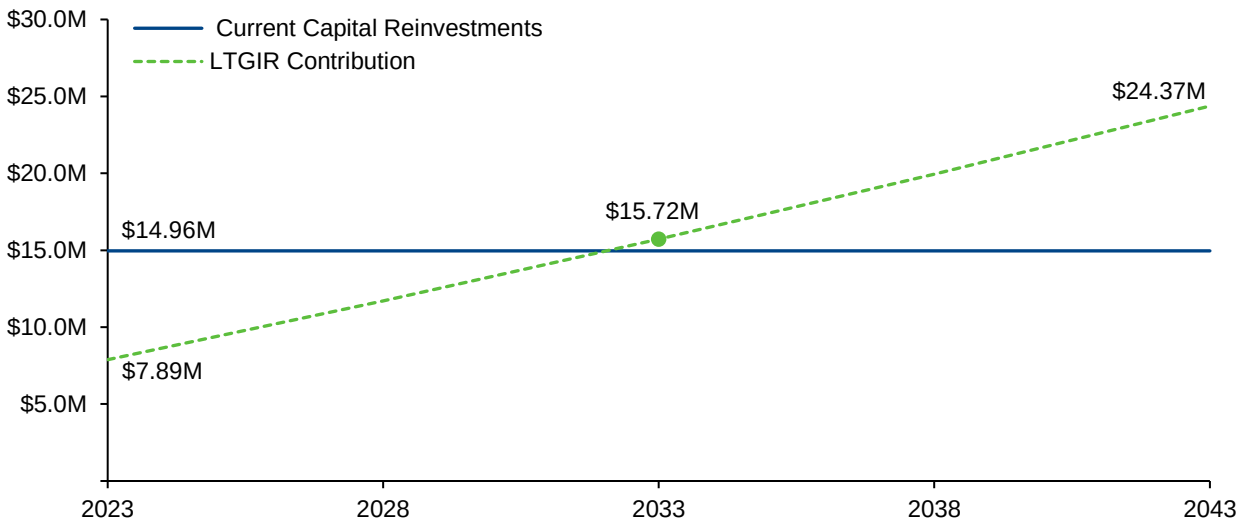
This analysis shows that based on its current annual contributions of $7.9 million to the LTGIR, an annual funding deficit of $25.9 million is generated each year. These annual contributions outpace the City's actual capital spending each year, illustrated in Table 22 above as $15 million.

Table 23: Comparing Average Annual Requirements Against Annual Contributions to the LTGIR

Service Areas	Total Average Annual Requirements	Annual Contributions to LTGIR	Annual Capital Funding Deficit	Funding Level
Tax-Funded	$33,753,865	$7,885,600	$25,868,265	23%

The City increases annual contributions to the LTGIR each year by an additional 1% of the prior year's tax levy. At this rate, contributions will total more than $24 million by 2043. However, under the current funding framework for existing assets, despite this judicial strategy, annual capital spending on tax-funded service areas will continue to outpace these annual contributions until 2033.

Figure 19: Annual Contributions to the LTGIR vs. Annual Capital Spending



This illustration does not account for inflationary increase to annual capital expenditures or other market pressures, which would increase the gap between annual contributions and current reinvestments, and extend the timeline of fully funding capital spends through annual contributions. Although infrastructure spending can be supplemented by other streams, a more sustainable funding framework would see the City increase its fiscal capacity through own-source revenues, i.e., property taxation.

Annual Deficits

The City currently faces two types of deficits. The infrastructure deficit is the gap between average annual requirements and current capital expenditures. This gap currently stands at $18.8 million, as illustrated in Table 22.

The second, the annual capital funding deficit, is the gap between average annual requirements and contributions to the LTGIR, calculated as $25.9 million as illustrated in Table 23. Before the annual infrastructure deficit can be addressed, the funding deficit must first be closed by increasing contributions to the LTGIR. As such, it is the target of the financial strategy.

Funding Models

The funding models presented below outline funding goals, and how the annual deficit decreases with reductions in these targets. These deficit figures are used to calculate resulting rate increases to allow the City to close the annual contribution deficit for LTGIR.

At the full-funding level, the City would need to meet the full $33.8 million annual requirements, and close a $25.9 million current funding gap. Understanding that the financial impact on rate payers may be difficult, options to reduce the annual funding to a level of 75% and 50% of the AAR are included.

Table 24: Funding Levels and Resulting Funding Deficits

Model	Funding Goal	Current Contributions to the LTGIR	Resulting Funding Deficit
Fully Funded	$33.8M	$7.9M	$25.9M
75%	$25.3M	$7.9M	$17.4M
50%	$16.9M	$7.9M	$9.0M

Each model has risks and benefits, as outlined below. The right model balances the burden placed between generations of residents while realizing the highest value from infrastructure assets.

Table 25: Risks and Benefits of Funding Models

Model	Potential Risks	Potential Benefits
Fully Funded	– Higher financial impact on taxpayers – Limited financial flexibility for other programs and services	– Avoid further accumulation of backlog – Potential long-term costs savings – High economic and social benefits, including ability to attract more investments and businesses – Less vulnerability to evolving provincial and federal policy and funding programs
75%	– Further accumulation of existing infrastructure backlog – Lower, overall levels of service – Potential safety implications – Higher indirect economic, social, and reputational risks resulting from infrastructure disrepair – Higher vulnerability to evolving provincial and federal policy and funding programs	– Lower impact on taxpayers – More budget flexibility for other programs and service
50%	– Further, more rapid accumulation of existing backlogs – Potentially high safety implications – Low service levels – Lower quality of life and potential loss of local economic activity – Higher reputational damage – High dependence on other sources of funding – High vulnerability to unexpected asset failures	– Lowest impact on taxpayers

Eliminating the Annual Deficit

In 2023, Port Coquitlam's property taxation revenues totaled $74,880,000. To eliminate the funding deficit, additional contributions are needed to the LTGIR. The following table outlines the tax increases required to support these additional contributions, depending on the funding model selected. In addition to these models, three phase-in periods are presented, allowing the City to achieve the desired funding goal between five and 20 years.

The City already increases annual contributions to the LTGIR by an additional 1% per year based on prior year's levy. As such, the rate increases presented for the three phase-in periods are over and above this preestablished mechanism.

Table 26: Tax Rate Increase Required to Achieve Funding Levels

Model	Overall Tax Rate Increase Required	5 Years	10 Years	15 Years	20 Years
Fully Funded	35%	↑5.11%	↑2.01%	↑1.00%	↑0.49%
75%	23%	↑3.27%	↑1.11%	↑0.40%	↑0.05%
50%	12%	↑1.29%	↑0.14%	↓0.24%	↓0.43%

As illustrated in Table 26, achieving full funding would require a one-time tax increase of 35%, or 5.11% per year over a five-year phase-in period, over and above the existing 1% annual increase. In contrast, a 50% funding model would see the City reduce tax rates over a 15-year phase in period. This option is not recommended.

As with funding models, phase-in periods also carry similar risk and benefits. Shorter time frames would reduce the pace of accumulating backlogs and help address infrastructure needs more quickly. However, they may place heavy burden on rate-payers. More protracted funding periods reduce rate-payer obligation, but may cause more rapid and further asset disrepair.

It is recommended that the City adopt the full-funding model over a 15-year phase-in period, with aim of meeting 100% of the $33.8 million annual requirements. This would require further increasing the LTGIR contribution by an additional 1.00% per year over the phase-in period, over and above the existing annual increase of 1%.

Drainage Utility Levy

The City should also consider the establishment of a drainage utility levy, coupled with the creation of a dedicated Long-Term Drainage Infrastructure Reserve Fund (LTDIR).

Several municipalities have established a drainage utility levy as the design and costs of drainage systems have changed significantly over the years. Contributing factors include:

i. climate change impacts (sea level rise, increased rainfall, higher intensity storms) driving the need for new or upgraded drainage infrastructure and flood protection;

ii. mitigation of environmental impacts and protection of watercourses driving the need for green infrastructure and enhancement projects;

iii. drainage infrastructure costing significantly more than water or sanitary infrastructure to construct and maintain;

iv. drainage assets currently being funded by General Revenue, which reduces the amount available for all of the other tax-funded assets.

If a Drainage Utility is established, a Long Term Drainage Infrastructure Reserve (LTDIR) would also be established with annual contributions funded through Drainage utility levies rather than property taxes.

Levy-Funded Service Areas

The analysis presented in this section includes Port Coquitlam's water and sanitary services, and is similar to the tax-funded service areas. The average annual requirements for the two levy -funded service areas total $8.8 million, against annual capital expenditures of $3.5 million. This creates an annual infrastructure deficit of $5.2 million.

Table 27: Comparing Average Annual Requirements Against Current Capital Reinvestments

Service Area	Average Annual Requirements	Current Capital Reinvestments	Annual Infrastructure Deficit
Water	$4,541,037	$2,034,200	$2,506,837
Sanitary	$4,214,139	$1,500,000	$2,714,139
Total	**$8,755,177**	**$3,534,200**	**$5,220,977**

As with tax-funded assets, the City contributes to long-term infrastructure reserves for both water and sanitary services, managed in the Long-Term Water Infrastructure Reserve (LTWIR) and the Long-Term Sanitary Infrastructure Reserve (LTSIR).

Based on the City's current contributions levels to the LTWIR and LTSIR, water services are currently meeting 25% of their average annual requirements, with sanitary at 20%. These funding levels create an annual capital funding deficit of $3.4 million each for water and sanitary services.

Table 28: Comparing Average Annual Requirements Against Annual Contributions to the LTWIR and LTSIR

Service Areas	Total Average Annual Requirements	Annual Contributions to LTWIR/LTSIR	Annual Capital Funding Deficit	Funding Level
Water	$4,541,037	$1,138,300	$3,402,737	25%
Sanitary	$4,214,139	$850,000	$3,364,139	20%
Total	**$8,755,177**	**$1,988,300**	**$6,766,877**	**23%**

As with the LTGIR, the City's contributions to both the LTWIR and LTSIR are increased each year by 1% of the prior year utility levy for each service area. At this growth rate, annual contributions to the LTWIR and LTSIR will become sufficient to fund current capital expenditures for each service area between 2029 and 2030. However, as current capital expenditures are below average annual requirements, the annual infrastructure gap will still persist beyond the 20-year horizon illustrated.

Figure 20: Annual Contributions to the LTWIR vs. Annual Capital Spending

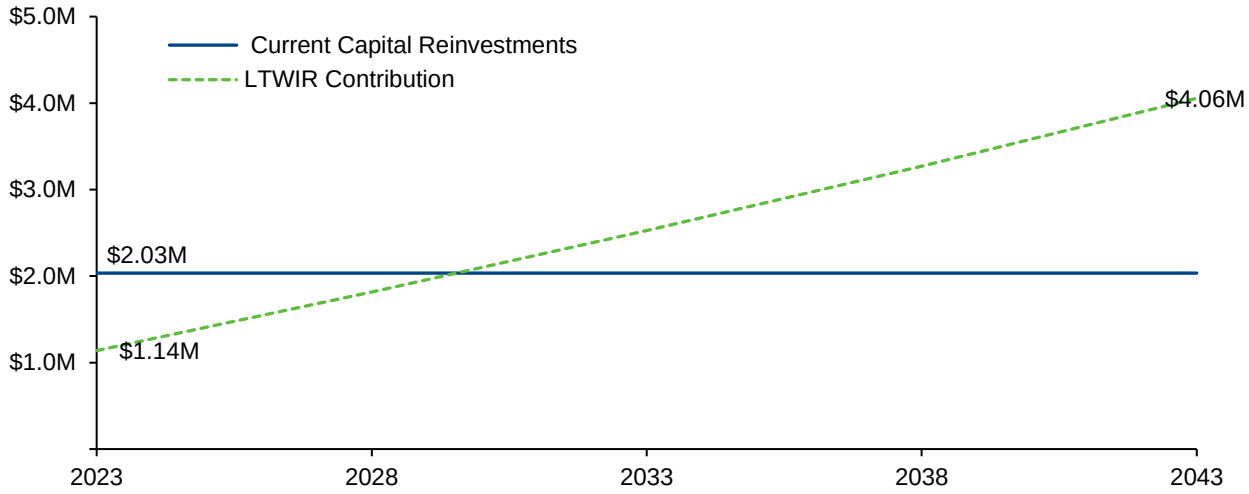
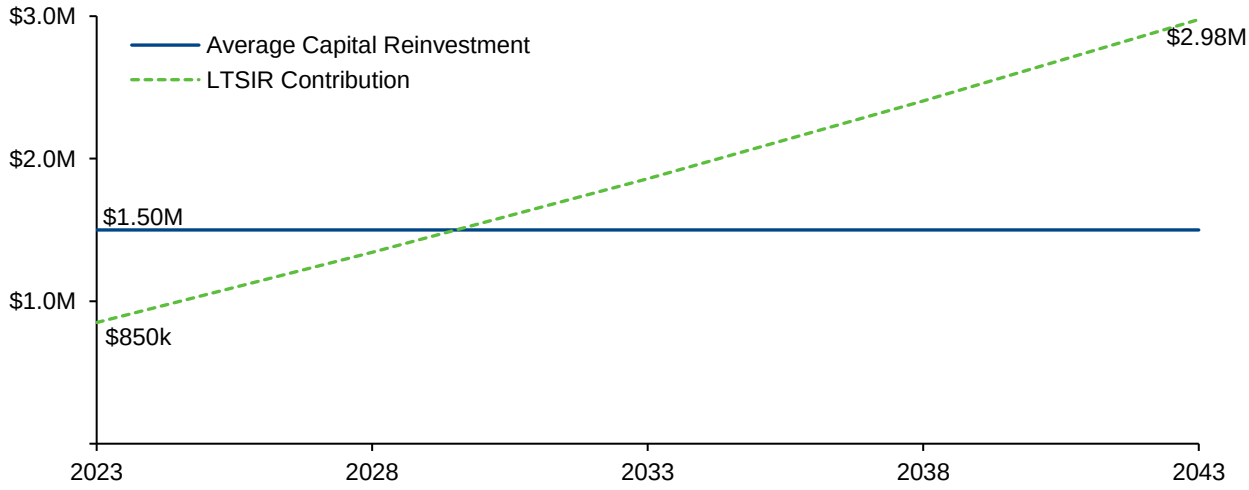


Figure 21: Annual Contributions to the LTSIR vs. Annual Capital Spending



These illustrations do not account for inflationary increase to annual capital expenditures or other market pressures, which would increase the gap between annual contributions and current reinvestments, and extend the timeline of fully funding capital spends through annual contributions. Similar to tax-funded assets, infrastructure spending can be supplemented by other streams; however, a more sustainable funding framework would see the City increase its fiscal capacity through own-source revenues, i.e., water and sanitary utility revenues.

Annual Deficits

Similar to tax-funded asset categories, the City faces two types of deficits. The first, illustrated in Table 27, is the gap between average annual requirements and actual current capital reinvestments.

The second, referred to as the annual capital funding deficit, is the gap between the same average annual requirements and annual contributions to the Long-Term Water Infrastructure Reserve and the Long-Term Sanitary Infrastructure Reserve. This gap, totaling $6.8 million, is illustrated in Table 28 for both water and sanitary services, and is the target of the financial strategy.

Funding Models

The funding models presented below outline funding goals, and how the annual deficit decreases with reductions in these targets. These deficit figures are used to calculate resulting levy increases to allow the City to close the annual contribution deficit for LTWIR and LTSIR.

At the full-funding level, the City would need to meet the full $8.8 million annual requirements for water and sanitary, and close the combined funding deficit of $6.8 million. Understanding that the financial impact on levy payers may be difficult, options to reduce the annual funding targets to a level of 75% and 50% of the AAR are included for both water and sanitary.

Table 29: Funding Levels and Resulting Funding Deficits: Water Services

Model	Funding Goal	Contributions to the LTWIR	Resulting Funding Deficit
Fully Funded	$4,541,037	$1,138,300	$3,402,737
75%	$3,405,777	$1,138,300	$2,267,478
50%	$2,270,518	$1,138,300	$1,132,219

Table 30: Funding Levels and Resulting Funding Deficits: Sanitary Services

Model	Funding Goal	Contributions to the LTSIR	Resulting Funding Deficit
Fully Funded	$4,214,139	$850,000	$3,364,139
75%	$3,160,604	$850,000	$2,310,605
50%	$2,107,069	$850,000	$1,257,070

In selecting the appropriate funding target, careful consideration of the risk and benefits of each need to be evaluated. See Table 25: Risks and Benefits of Funding .

Eliminating Annual Deficits

In 2023, Port Coquitlam's water and sanitary revenues totaled $13,120,000 and $9,560,000, respectively. To eliminate the funding deficit for each service area, additional contributions are needed to the LTWIR and LTSIR.

The following tables outlines the water and sanitary levy increases required to support these additional contributions, depending on the funding model selected. Similar to tax-funded assets, three phase-in periods are presented, allowing the City to achieve its desired funding levels between five and 20 years.

The City already increases annual contributions to each utility reserve by an additional 1% per year based on prior year's levy. As such, the rate increases presented for the three phase-in periods are over and above this preestablished goal.

Table 31: Utility Rate Increase Required to Achieve Funding Levels: Water

Model	Overall Water Levy Increase Required	5 Years	10 Years	15 Years	20 Years
Fully Funded	26%	↑3.72%	↑1.33%	↑0.55%	↑0.16%
75%	17%	↑2.24%	↑0.61%	↑0.07%	↓0.20%
50%	9%	↑0.67%	↓0.17%	↓0.45%	↓0.59%

Table 32: Utility Rate Increase Required to Achieve Funding Levels: Sanitary

Model	Overall Sanitary Levy Increase Required	5 Years	10 Years	15 Years	20 Years
Fully Funded	35%	↑5.22%	↑2.06%	↑1.03%	↑0.52%
75%	24%	↑3.42%	↑1.19%	↑0.45%	↑0.09%
50%	13%	↑1.50%	↑0.24%	↓0.17%	↓0.38%

As illustrated in Table 31, achieving full funding for water would require a one-time levy increase of 26%, or 3.72% per year over a five-year phase-in period, over and above the existing 1% annual increase. Similarly, achieving full funding for sanitary would require a one-time levy increase of 35%, or 5.22% per year over a five-year phase-in period, over and above the existing 1% annual increase.

In contrast, a 50% funding model would see the City reduce water levies over a 20-year phase-in period, and sanitary levies over the 15-year phase-in period. This option is not recommended.

Consistent with the approach for tax-funded service areas, it is recommended that the City adopt the full-funding model for both water and sanitary, with the aim of achieving 100% of the $8.8 million combined annual requirements over a 15-year phase-in period.

For water services, this would require further increasing contributions to the LTWIR by an additional 0.55% annually, over and above the existing annual increase of 1%. Similarly, for sanitary services, the LTSIR would see annual contributions increase by an additional 1.03%, over and above the existing 1% annual increase.

Infrastructure Backlogs

The models presented above would allow the City of Port Coquitlam to gradually increase its annual contribution to long-term infrastructure reserves for both tax- and levy -funded service areas. This strategy would address annual infrastructure deficits.

In addition to these deficits, most communities in Canada also have persistent infrastructure backlogs, accumulated over many decades. As projects are deferred, assets requiring replacements continue to remain in service beyond their design life and despite their poor condition ratings. Table 33 summarizes the infrastructure backlog for each service area.

Table 33: Age- and Condition-based Infrastructure Backlogs

Service Area	Infrastructure Backlog
Drainage	$162.1M
Transportation	$160.2M
Parks	$25.6M
Facilities	$29.8M
Fleet & Equipment	$24.2M
Information Services	$6.4M
Water	$109.7M
Sanitary	$99.5M
Total	**$617.4M**

Using Reserves

Addressing existing backlogs requires strategic use of funding sources and a risk-based prioritization of projects, to channel funding where they are needed most. Theoretically, the City can use existing long-term infrastructure reserves to partially tackle a portion of this backlog. However, Table 34 shows that even if long-term infrastructure reserves were fully depleted, less than 4% of the total infrastructure backlog would be eliminated. Of note, backlogs should be refined through regular in-field condition assessments and prioritized through risk and asset criticality assessments.

Table 34: Long-Term Infrastructure Reserves vs. Backlogs

Reserve	Forecasted Closing Balance, December 31, 2023	Infrastructure Backlog	Reserves to Backlog Ratio
General (Tax Funded)	$15.7M	$408.3M	3.8%
Water (Rate Funded)	$4.8M	$109.7M	4.4%
Sanitary (Rate Funded)	$3.6M	$99.5M	3.6%
Total	**$24.1M**	**$617.4M**	**3.9%**

To put this in perspective, a typical homeowner with a property value assessed at $969,000 would have $37,800 on hand for major home repairs. Although there is no scientific consensus on optimal reserve levels, whether a 3.9% ratio is sufficient will depend on individual (council) risk appetite, current asset conditions, and forecasted future needs.

Leveraging Development Cost Charges (DCC)

Port Coquitlam is also a growing city, and there is an opportunity to strategically leverage the City's DCC program to address existing asset backlogs. The City's current DCC program totals nearly $219 million, distributed over 20 years. Given their benefits to existing residents, the City would be required to contribute $117.8 million, or 53% of the total project cost estimates. This figure includes a 1% municipal assist factor for growth-related projects.

Table 35: Development Cost Charges (DCC) Program

Service Area	Total DCC Project Value	Port Coquitlam Contribution	DCC Recoverable
Drainage	$74,494,000	$47,196,403	$27,297,598
Transportation	$100,400,000	$43,283,930	$57,116,070
Water	$16,467,760	$9,478,459	$6,989,301
Sanitary	$27,547,840	$17,811,128	$9,736,712
Total	**$218,909,601**	**$117,769,920**	**$101,139,680**

Analysis shows that there is a significant overlap between projects slated to be completed as part of the DCC program (capacity upgrades to support growth) and assets that are currently in a backlog state (beyond their service life and due for replacement due to age/condition). As illustrated below, 56% of projects, by current cost estimates, will result in the replacement of assets currently considered in a backlog state. These replacements are designed to meet higher demand and usage, and will result in capacity upgrades and or higher functionality—resulting in higher overall service levels.

Table 36: Overlap Between DCC Program and Assets in Backlog State

Service Area	Total DCC Project Value	Projects Addressing Backlog ($)	Projects Addressing Backlog (%)	Port Coquitlam Contribution	DCC Recoverable
Drainage	$74,494,000	$39,636,026	53%	$23,748,706	$15,887,320
Transportation	$100,400,000	$60,900,000	61%	$30,107,040	$30,792,960
Water	$16,467,760	$11,407,760	69%	$7,522,109	$3,885,651
Sanitary	$27,547,840	$10,957,151	40%	$6,723,966	$4,233,185
Total	**$218,909,601**	**$122,900,937**	**56%**	**$68,101,820**	**$54,799,117**

Recommendations

Given the risks and benefits associated with different funding levels and phase-in period, the following approach is recommended to address annual infrastructure deficits.

Tax Funded Service Areas

- The City should endeavour to achieve full-funding for its tax-funded service areas, requiring $33.8 million on an annual basis to meet the replacement needs of its existing asset portfolio.

- To achieve this, a 15-year phase-in period is recommended to allow for an equitable distribution of financial burden between current and future residents.

- This would require further incrementally increasing the LTGIR contribution by an additional 1.00% of the budgeted prior year's taxation levy each year over the 15-year phase-in period, solely for the purpose of phasing in full funding for the tax funded assets. This is in addition to the existing annual increase of 1%.

This would increase individual property taxes by a further $21.30, based on a home assessed at $969,000. This increase would be over and above the higher taxes resulting from the 1% annual increase already implemented, and estimated at $21.35.

- The recommendations presented do not account for inflation. Staff should consider the impacts of inflation on both annual capital expenditures, and additional contributions required to the LTGIR to maintain fiscal strength.

- Should the City establish a drainage utility levy, the creation of a dedicated Long-Term Drainage Infrastructure Reserve Fund (LTDIR) should also be established. Annual contributions towards the LTDIR should then be funded through the newly established utility levy equivalent to the amount funded through property taxes. This would reduce the average annual requirements for tax-funded assets by 22%.

Levy-Funded Service Areas

- The City should endeavour to achieve full-funding for its water and sanitary service areas, requiring $8.8 million on an annual basis to meet the replacement needs of its existing asset portfolio.

- To achieve this, a 15-year phase-in period is recommended for both water and sanitary, consistent with tax-funded phase-in period, allowing for an equitable distribution of financial burden between current and future residents.

- For water services, this would require further incrementally increasing contribution to the LTWIR by an additional 0.55% of the budgeted prior year's utility levy each year over the 15-year phase-in period, solely for the purpose of phasing in full funding for water. This is in addition to the existing annual increase of 1%.

  This would increase individual water levies by a further $2.73. This increase would be over and above the higher water levies resulting from the 1% annual increase already implemented, and estimated at $4.98

- For sanitary services, the 15-year, full-funding model would require further incrementally increasing contribution to the LTSIR by an additional 1.03% of the budgeted prior year's utility levy each year over the 15-year phase-in period, solely for the purpose of phasing in full funding for water. This is in addition to the existing annual increase of 1%.

  This would increase individual sanitary levies by a further $3.71. This increase would be over and the higher sanitary levies resulting from the 1% annual increase already implemented, and estimated at $3.60.

- The recommendations presented do not account for inflation. Staff should consider the impacts of inflation on both annual capital expenditures, and additional contributions required to the LTWIR and LTSIR to maintain fiscal strength.

- Addressing the infrastructure backlog requires the strategic use of reserves and the City's DCC program. In addition, asset criticality and risk analysis should be used to prioritize projects.

As in the past, periodic senior government infrastructure funding will most likely be available during the phase-in period. This periodic funding should not be incorporated into an AMP unless there are firm commitments in place. However, it can be used to help close the infrastructure gap more quickly, or lower the long-term impact on tax and utility levies. It should be noted that the above recommendations do not include the use of reserves or debt. Depending on the urgency of projects and the impact on levels of services, reserves and debt can be viable, supplemental options.

Next Steps

Asset management does not stop with the completion of asset management plans. An asset management program is an ongoing effort to responsibly manage City assets from procurement, through their full lifecycle, to replacement. The work completed with the asset management plans sets a strong foundation for the City to move forward in this regard, and is intended to be refined and built on with future work.

Future work includes items outlined in the City's asset management strategy, such as:

- Developing 10-20 year capital plans for each asset portfolio using the high risk assets identified in each plan to prioritize projects
- Reconciling assets updated in the Citywide asset register with the PSAB asset register used for financial reporting
- Training staff on the Citywide asset management software and keeping the database up to date
- Working with staff in each asset group to update asset inventories, complete condition assessments, update replacement value estimates, refine risk assessments, and periodically review lifecycle activities and service levels
- Considering natural assets and climate change in the City's asset management program