EXECUTIVE SUMMARY

02 Executive Summary

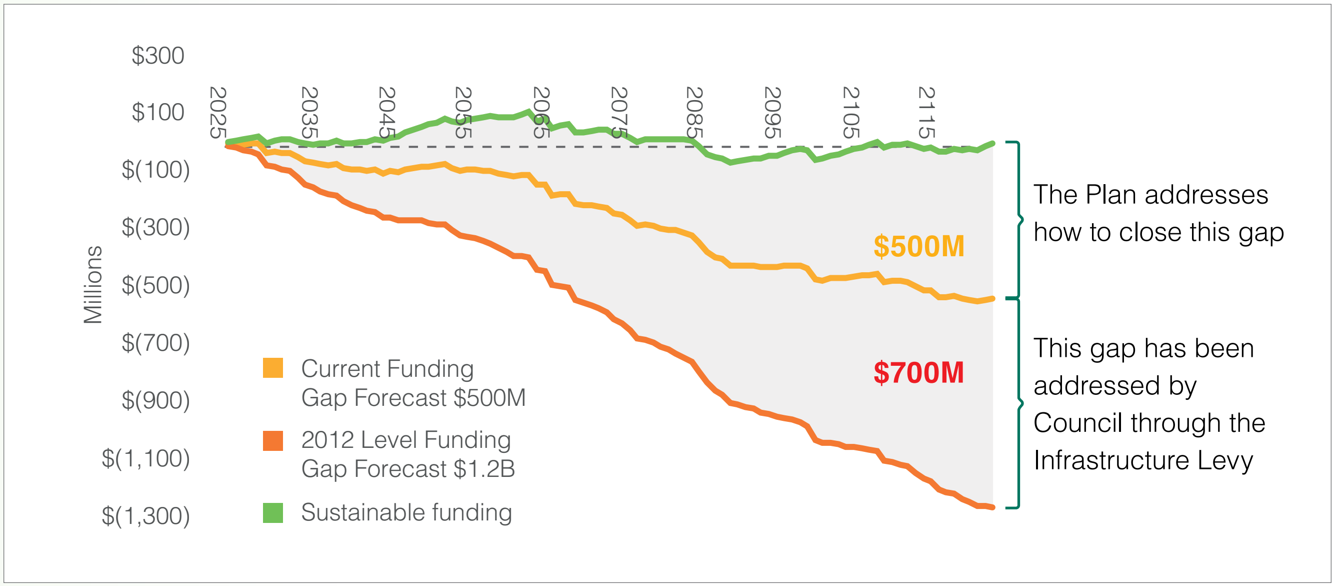
Introduction

The City of Vernon provides extensive services to the community using a portfolio of built and natural assets. The City's asset management program is an on-going process of review and refinement. This Plan improves upon and replaces the City's 2013 Sustainable Infrastructure Investment Plan (SIIP) as the City's Organizational Asset Management Plan.

According to the Plan findings, the City has closed the financial sustainability gap for general fund (non-sanitary) assets significantly. Prior to 2013, the City's general fund infrastructure replacement funding was estimated to be 27% sustainable. Funding for general fund assets is now estimated to be approximately 75% sustainable. Some notable governance and operational decisions have led to this result:

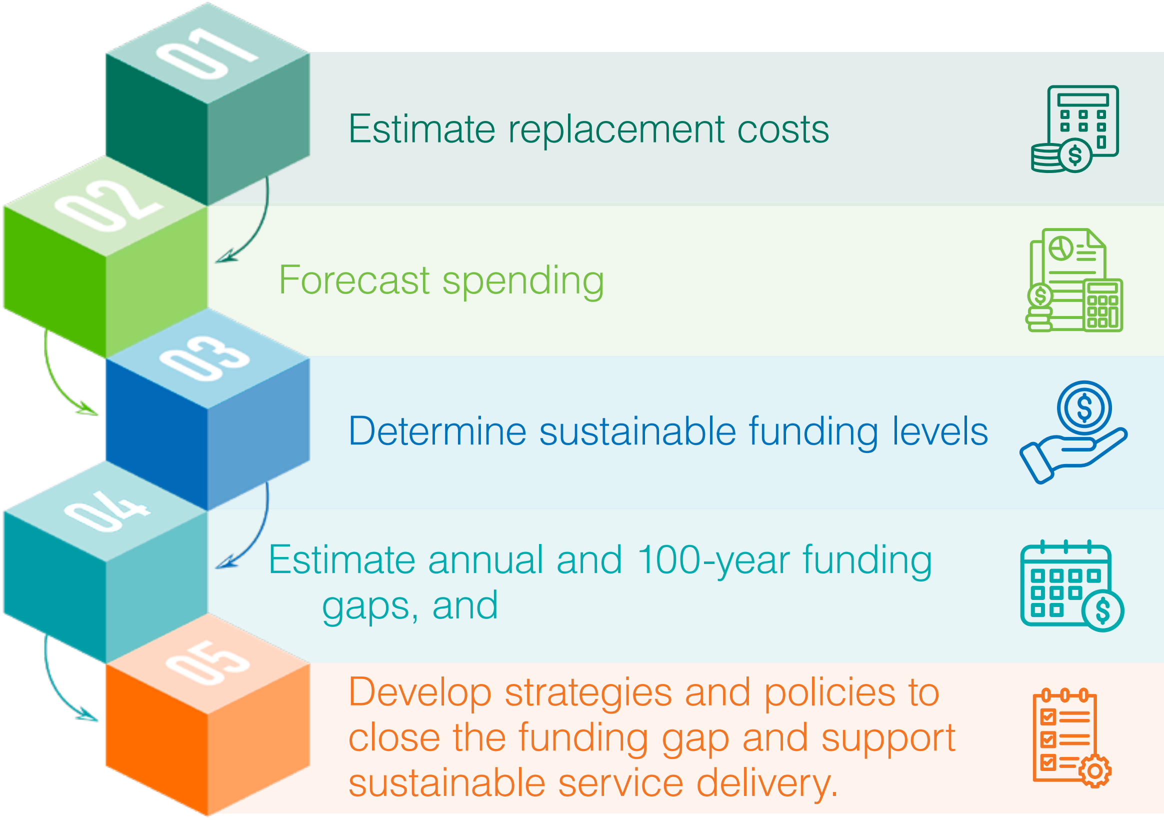
1. The City implemented an infrastructure levy and successive 1.9% property tax increases. This effort has increased annual funding by over $7M, thereby closing the 100-year funding gap by over $700M.
2. The City has been actively collecting thorough and robust asset management data and has been utilizing asset management optimization software. For instance, the City's pavement management optimization software is used to recommend proactive and preventive maintenance which significantly reduces the forecasted annual pavement funding required.

Figure 1: Annual Infrastructure Levy Progress, 100-Year Forecast



Purpose of this Plan

Specifically, this Plan set out to:



The overarching objective of this Plan is to support sustainable service delivery. Sustainable service delivery ensures that current community services are delivered in a social, economic, and environmentally responsible manner that does not compromise the ability of future generations to meet their own needs.

Key Findings

This Plan has the following key findings:

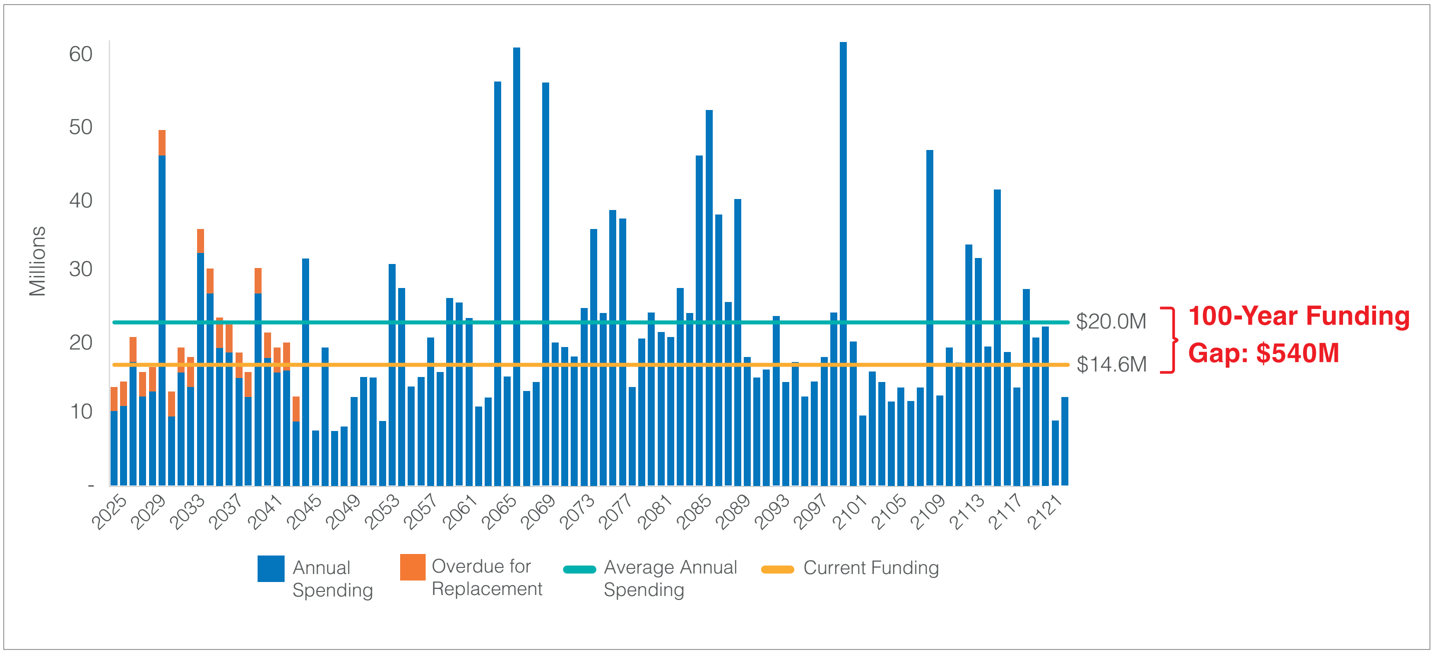
- **Inventory Valuation:** The replacement cost of the City of Vernon's depreciable assets is estimated to be approximately $2.6 Billion ($1.7B general fund assets + $0.9 B sewer fund assets).
- **Infrastructure Condition:** Overall, depreciable assets are estimated to be 42.4% consumed on average. The value of this consumption is estimated to be $1.1 Billion.
    - By comparison, the City's infrastructure replacement reserves are approximately $14.2M which is approximately 1% of consumption.

- **Spending Forecasts:** Overall, the City is forecasted to spend approximately $2.0B on general fund assets and $1.0B on sewer fund assets over the next 100 years to replace existing assets.

- **100-Year funding Gap:** Modelling indicates that current funding levels will result in between a $480M and $540M 100-year funding gap.

- **Annual funding levels:** The annual funding needed to replace existing general fund assets over the next 100 years is estimated to be between $19.4M and $20.0M while annual funding levels are currently $14.6M.
    - This means current funding for general fund assets is currently between 72.9% and 75.3% sustainable approximately.
    - This funding gap will need to be closed by a combination of gradual property tax increases and can be partially mitigated by leveraging investment returns. There are limited opportunities to reduce service levels to close the funding gap.
    - Calculating the funding gap for sewer fund assets was not within the scope of this Plan as a comprehensive sewer fund rate review was underway.

Figure 2: 100 Year Funding Gap Forecast



- **Sensitivity Analysis:** A sensitivity analysis was conducted to help authenticate the broad findings of this review. Broad findings include estimated annual sustainable funding, annual funding gap, and 100-year forecasted spending. Overall, the sensitivity analysis confirms Vernon is facing an annual funding gap that will need to be addressed now or at some point in the future. Sensitivity modelling indicates an annual funding gap of between $1.8M (most optimistic) and $6.7M (most pessimistic).

Key Recommendations of the Plan, 2024

The Plan contains the following key recommendations:

1. **Increase funding to sustainable levels:**
   a. Increase Property taxes by 9.0% over a 5–10-year period,
   b. Alternatively, the City may choose to increase property taxes by 6.0% in the short term, and finance building replacement by debt (thereby deferring 3.0% of the tax increase). This option would result in the need for a 3.0 % tax increase in the long term plus an additional 2.25% tax increase to service debt interest.
2. **Annual forced growth:** Establish a policy within the Financial Plan bylaw to increase infrastructure replacement funding by an appropriate infrastructure cost escalation factor annually.
3. **Debt servicing budgets:** Integrate language into the City's policy section of the Financial Plan bylaw such that when debt expires, the associated debt servicing budgets be reprioritized to fund annual infrastructure funding.
4. **Non-market change revenue:** Integrate language into the City's policy section of the Financial Plan bylaw such that non-market change property tax revenue is prioritized for infrastructure renewal.
5. **Investments:** Align long term cash flows with investment portfolio/horizon
6. **Asset Management Policy:** Amend the City's Asset Management Policy to integrate a section that identifies quadruple bottom line objectives, including environmental considerations and a section outlining scope of assets the policy applies to.