District of Oak Bay, British Columbia

Building for the Future with a Sustainable Infrastructure Replacement Plan

GFOA Best Practice

- Business Preparedness and Continuity Guidelines

About the District of Oak Bay

Oak Bay is located on the southern tip of Vancouver Island in British Columbia. Incorporated in 1906, it forms part of the Greater Victoria urban area and is home to a population of nearly 18,000 people as of 2021. Oak Bay acknowledges that the land where its population lives is the traditional territory of the Coast and Straits Salish Peoples.

When the District of Oak Bay, British Columbia, faced the realities of its aging infrastructure, it also confronted difficult choices related to both budget decisions and tax increases. Working together, the district's leaders in finance and engineering tackled the daunting challenge of building a sustainable infrastructure replacement plan and transforming the way the community was planning for future needs. Here is how they did it, what they learned, and what other communities can apply to their own long-term financial planning.

A SOBERING REALITY

In 2015, the District of Oak Bay's Council adopted a strategic plan that included an initiative to implement a formal asset management plan to help develop, maintain, and protect Oak Bay's infrastructure. As a first step, infrastructure condition assessments were conducted on assets across the community, including sewer infrastructure, water infrastructure, storm utility, roads, buildings, parks, and recreational facilities. These assessments revealed that the majority of Oak Bay's assets were near the end of their lives and needed substantial updates. Findings were presented to the council.

As Chief Financial Officer Christopher Paine recalled, "It had reached a point where there was visible evidence of the aging infrastructure in Oak Bay." For example the District experienced stormwater backups, lower-than-average pavement condition index in comparison to other Canadian municipalities, and a higher-than-average proportion of reactive versus proactive road maintenance. As he noted, the council adopted an

asset management policy and asset management strategy in 2018. That same year, the council also approved moving one percent of annual tax revenue into its reserves to fund infrastructure needs.

Paine joined Oak Bay in late 2019 and worked closely with the engineering department to advance asset management and develop a long-term financial plan for the community—what would eventually become its sustainable infrastructure replacement plan. While work on this plan was underway, the council approved increasing annual contributions to the reserves of two percent of tax revenues, anticipating that current funding levels would be insufficient.

In explaining asset condition, Paine said, "Once infrastructure is visibly worn, you're past the stage where you should have taken proactive steps to manage it—and it's likely that condition is directly affecting the mandate of service delivery to the community. Oak Bay was in a triage stage, and there was no question that we needed to fund and build infrastructure."

A 2012 pavement management study commissioned by the district recommended increasing annual funding to $2.8 million to maintain the existing road infrastructure condition.

BUILDING THE SUSTAINABLE INFRASTRUCTURE REPLACEMENT PLAN

Oak Bay's sustainable infrastructure replacement plan was developed to fulfill three specific objectives:

- Forecast infrastructure spending for the next 50 to 100 years.
- Recommend funding levels required to support long-term infrastructure replacement.
- Develop different options to address forecasted funding gaps.

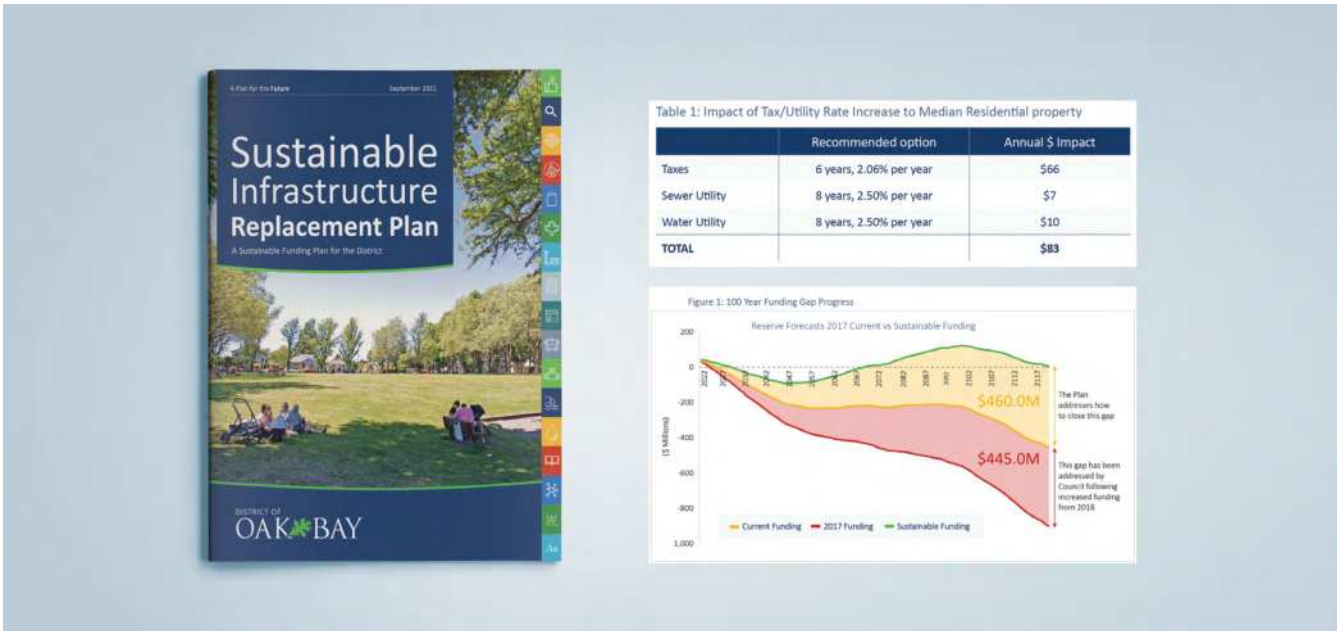
The plan recommends annual funding levels to achieve a sustainable funding stream and continue with capital services; capital investment increases to maintain existing capital services and address the backlog in overdue infrastructure replacement; and a detailed capital asset lifecycle model for all capital assets via a multiyear capital planning process.

As Paine shared, the challenge was in reinterpreting what was needed in a long-term financial plan. "Most people see a long-term financial plan as a spending plan—a capital plan for the next 10 to 20 years. But for Oak Bay, it was less about spending than it was about funding properly. If we were able to fund our assets over their lifecycle, then we wouldn't compress the cost of replacing them on one generation, and we could take advantage of investment returns, which is a significant benefit to proactive funding."

This approach required a significantly longer time horizon. "The plan outlines what we think we will spend over the next 100 years, which amounts to over $1 billion in today's money. But it also outlines how we will fund it," Paine said. Such long-term planning introduces variables like inflation, investment returns, service levels, and council decisions that will inevitably change as the decades ahead unfold. "We needed to paint a picture at a high level of how much spending we're planning to do and demonstrate how important it is. We also wanted to illustrate the relative difference between what current funding levels could support and what was truly needed, rather than exactly outlining the actual spending." This approach would enable Oak Bay staff to make the case for increased funding levels, which would ultimately demand more in property taxes from residents.

IDENTIFYING AND ADDRESSING THE GAPS

In creating the plan, staff identified two key gaps. The first was a lack of capital service level expectations. Paine explained that Canada uses



National Asset Management Standards, which outline useful lives for assets. But there is a difference between useful life and physical life—and it's really about risk. "We don't want to use assets like water mains until they break," Paine said. "We want to deliver uninterrupted service, so in asset management, you choose a useful life that manages that risk." The SIR plan uncovered $275 million in assets that are overdue for replacement, according to the national standards—which means the community has accepted a high level of risk and a low level of capital services. The new plan defines an acceptable level of risk to inform future capital service-level decisions.

The second gap involved asset lifecycle costing information, or information provided to decision-makers at the beginning of infrastructure construction or acquisition. As Paine and his colleagues discovered in this process, accurate lifecycle information often wasn't available. "Now, we're providing council with lifecycle costing information at the outset of the decision, to support better decisions in service of infrastructure needs, the community, and our future."

DIFFERENT COMMUNITIES, DIFFERENT OPPORTUNITIES

As a community incorporated in 1906, Oak Bay faced different infrastructure challenges than those confronted by growing communities. "The lesson here is that younger communities have tremendous opportunity to invest proactively, early on. When they do, they can improve intergenerational funding equity and leverage investment returns to really reduce the cost borne by taxpayers and utility rate payers," Paine explained. "In Oak Bay, it's too late for that. We will have to go into debt just to maintain our day-to-day infrastructure, and it will take decades or more to right the ship. But it's also about the future. The investment returns you can earn over the lifecycle of an asset can exceed the total tax and utility contributions to funding it, so that's a huge opportunity cost for communities."

In Oak Bay, the sustainable infrastructure replacement plan determined that current funding levels were insufficient to address needed asset maintenance and replacement, even with increases in annual tax revenue allocation to reserves. Taxes and utility rates would need to increase to generate additional revenue. To convey the "why" to the community, staff created an explainer video and social media campaign, and held information sessions. With the clearly articulated need, Paine said, "The community accepted our infrastructure challenge and addressed the funding moving forward—in part as a result of this report."

The District of Oak Bay's plan outlines how they will halt the growth of the funding gap by increasing annual funding to sustainable levels.

GFOA BEST PRACTICE

The District of Oak Bay followed several of GFOA best practices related to capital planning and infrastructure management, which recommends that local, state, and provincial governments establish a system for assessing their capital assets and then appropriately plan and budget for any capital maintenance and replacement needs. "Finance is sometimes seen as the gatekeeper," Paine shared, "but it's not about what we can or can't spend. It's about being able to deliver on the service levels the council sets forth for our community. This plan is about delivering on exactly that—not only for today, but also for tomorrow."