PUBLIC AGENDA
STANDING POLICY COMMITTEE ON FINANCE

Monday, May 29, 2017, 2:00 p.m.

Council Chamber, City Hall

Committee Members:

Councillor A. Iwanchuk, Chair, Councillor R. Donauer, Vice Chair, His Worship Mayor C. Clark (Ex-Officio), Councillor C. Block, Councillor B. Dubois, Councillor M. Loewen information and forwarded to City Council for information.

6.2.2 2016 Annual Report - Saskatoon Board of Revision [File No. CK. 430-77] 25 - 31

Recommendation

That the information be received and forwarded to City Council for information.

6.3 Requests to Speak (new matters)

6.3.1 Mendel Building Upgrades - Children's Discovery Museum 32 - 41

A letter requesting to speak from Dave Hunchak, Chair, Children's Discovery Museum, Facilities Committee dated May 23, 2017, is provided.

Recommendation

That the information be received.

7. REPORTS FROM ADMINISTRATION

7.1 Delegated Authority Matters

7.1.1 Residential Lot Sales – Showhome Policy Exemption Request [File No. CK. 4214-1, AF. 4214-1 and LA. 4214-12] 42 - 44

Recommendation

1. That an exemption be granted under Council Policy No. C09-010, Residential Lot Sales – Showhome Policy, to Riverbend Developments Ltd. to allow two showhomes to run concurrently with financial incentives; and
2. That, if approved, the exemption also be granted to other Eligible Contractors requesting to open two showhomes in the same subdivision during the 2017 Parade of Homes, assuming all other requirements are met.

7.1.2 Quarterly Report – Builder and Developer Lot Supply–May 1, 2017 [File No. CK. 4110-1, AF. 4131-1, 4125-1, and LA. 4110-1] 45 - 51

Recommendation

That the information be received.

7.1.3 Factors in Determining External Contracted Services [File No. CK. 4560-1 and AF. 4560-1] 52 - 55

Recommendation

That the May 29, 2017 report of the CFO/General Manager, Asset and Financial Management be received as information.

Recommendation

That the May 29, 2017 report of the CFO/General Manager, Asset and Financial Management be received as information.

Recommendation

That the May 29, 2017 report of the CFO/General Manager, Asset and Financial Management be received as information.

The following reports are provided:

- Internal Audit Report and Risk Assessment Reports from Internal Auditors, PricewaterhouseCoopers LLP, dated May 23, 2017; and
- Administrative Response to PricewaterhouseCoopers - Saskatoon Land Internal Audit Report, dated May 29, 2017.

Internal Auditors, PricewaterhouseCoopers LLP will be in attendance.

Recommendation

The the May 23, 2017 Internal Audit Report - Saskatoon Land and Saskatoon Land Risk Assessment from Internal Auditors PricewaterhouseCoopers LLP, and May 29, 2017 report of the CFO/General Manager, Asset and Financial Management be received as information.

An internal audit report dated May 23, 2017 on the above matter from the Internal Auditor, PricewaterhouseCoopers LLP, along with a report on the Administrative response and timelines to the above audit has been provided.

Internal Auditors, PricewaterhouseCoopers LLP will be in attendance.

Recommendation

That the above reports be received as information.

7.2 Matters Requiring Direction

7.2.1 ERP Analysis and Business Requirements Gathering – Consulting Services – Award of RFP [File No. CK. 261-1 and AF. 115-1] 179 - 181

Recommendation

That the Standing Policy Committee on Finance recommend to City Council:

1. That the proposal submitted by MNP LLP for consulting services for the Enterprise Resource Planning Analysis and Business Requirements Gathering, at a total estimated cost of $205,000 plus applicable taxes, be approved; and
2. That His Worship the Mayor and the City Clerk be authorized to execute the contract documents as prepared by the City Solicitor under the Corporate Seal.

7.2.2 Internal Borrowing for Capital Projects [File No. CK. 1702-1 x 1750-1] 182 - 185

Recommendation

That the Standing Policy Committee on Finance recommend to City Council:

1. That a $15,700,000 loan from the General Account long-term investment portfolio, amortized over a 10-year term, for Capital Project Nos. 2198, 2557 and 1234 be approved;
2. That Council Policy No. C12-009, Portfolio Management, allow for a “one-time exemption” in an investment with a maturity term exceeding 10 years and that a $12,100,000 loan from the General Account long-term investment portfolio for Capital Project No. 1814, amortized over a 23-year term, be approved; and
3. That a $186,598 loan from the General Account long-term investment portfolio, for Capital Project No. 2160, amortized over a 3-year term, be approved.

7.2.3 Award of RFP – After-Hours Security Alarm Responses, Boiler 186 - 188

Inspections, and Locking/Unlocking Washrooms [File No. CK. 600-1, AF. 600-1 and FA. 1500-44]

Recommendation

That the Standing Policy Committee on Finance recommend to City Council:

1. That the proposal submitted by the Commissionaires North Saskatchewan Division for after-hours security alarm responses, after-hours boiler inspections, and locking/unlocking washrooms in City of Saskatoon parks, at a total estimated cost for the five-year term of $500,000, plus applicable taxes, be approved; and
2. That His Worship the Mayor and the City Clerk be authorized to execute the contract documents as prepared by the City Solicitor under the Corporate Seal.

8. URGENT BUSINESS

9. MOTIONS (notice previously given)

Councillor Block provided notice of the following motion at the regular meeting of the Standing Policy Committee on Finance, held on May 1, 2017:

"Take Notice that at the next meeting of the Standing Policy Committee on Finance, I will move the following motion:

That the Administration be directed to analyze all possible tools to develop a fair and equitable process for assessment where gross inconsistencies are present, including but not limited to the approach used in other Canadian cities;

That should gross inconsistencies be found to be a reasonable cause for assessment adjustment, and an appropriate tool be found to address these inequities, that administration bring forth a recommendation to retroactively compensate homeowners affected based on the 2017 re-assessment; and

That the Municipal Review Commission be directed to study and report back on best practices regarding the appeals process, to ensure a fair hearing, including but not limited to the role of the administration as assessor and appeals adjudicator."

10. GIVING NOTICE

11. IN CAMERA AGENDA ITEMS

Recommendation

That the following items be considered *In Camera.*

11.1 Audit Matter [File No. CK. 1895-3]

[In Camera - Economic, Financial and Other Interests - Section 17; Audits and Tests - Section 19 LAFOIPP]

11.2 Land Matter [File No. CK. 4215-1, x 4110-41, AF. 4110-1 and LA. 4110-1]

[In Camera - Economic/Financial - Land, Sections 17(1)(d) and (e) LAFOIPP]

11.3 Land Matter [File No. CK. 280-1, AF. 280-3 x 4110-1]

[In Camera - Economic/Financial - Land, Sections 17(1)(d) and (e) LAFOIPP]

11.4 Audit Matter [File No. CK. 430-80 and AF. 369-1]

[In Camera - Audits and Tests - Section 19 LAFOIPP]

11.5 Audit Matter [File No. CK. 1600-24]

[In Camera - Third Party Information - Section 18; and Audits and Tests - Section 19 LAFOIPP]

11.6 Audit Matter

[In Camera - Third Party Information - Section 18; and Audits and Tests - Section 19 LAFOIPP]

11.7 Audit Matter

[In Camera - Third Party Information - Section 18; and Audits and Tests - Section 19 LAFOIPP]

12. ADJOURNMENT

1711-4

TCU PLACE

SASKATOON'S ARTS & CONVENTION CENTRE

RECEIVED
MAY 02 2017
CITY CLERK'S OFFICE
SASKATOON

May 1, 2017

Joanne Sproule
Office of the City Clerk
City Hall
222 – 3rd Avenue North
Saskatoon, SK
S7K 0J5

Re: Centennial Auditorium & Convention Centre Corporation Audited Financial Statements

Enclosed please find a copy of the 2016 Audited Financial Statements for the Centennial Auditorium & Convention Centre, to be forwarded to City Council.

Any questions, please do not hesitate to contact me.

Sincerely,

Bob Korol,
Chief Executive Officer
TCU Place
bkorol@tcuplace.com
(306) 975-7779

THE CENTENNIAL AUDITORIUM & CONVENTION CENTRE CORPORATION

FINANCIAL STATEMENTS

December 31, 2016

KPMG

KPMG LLP
500-475 2nd Avenue South
Saskatoon Saskatchewan S7K 1P4
Canada
Tel (306) 934-6200
Fax (306) 934-6233

INDEPENDENT AUDITORS' REPORT

To the Member of The Centennial Auditorium & Convention Centre Corporation

We have audited the accompanying financial statements of The Centennial Auditorium & Convention Centre Corporation, which comprise the statement of financial position as at December 31, 2016, and the statements of operations, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Centennial Auditorium & Convention Centre Corporation as at December 31, 2016, and the results of its operations, changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

April 27, 2017
Saskatoon, Canada

THE CENTENNIAL AUDITORIUM & CONVENTION CENTRE CORPORATION
STATEMENT OF FINANCIAL POSITION
As at December 31, 2016, with comparative information for 2015

	2016	2015
FINANCIAL ASSETS		
Cash	$ **4,160,456**	$ 8,219,466
Investments (note 3)	**8,000,000**	4,000,000
Accounts receivable (note 4 and 11)	**1,222,915**	1,421,116
	$ **13,383,371**	13,640,582
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities (note 11)	$ **1,738,954**	$ 2,127,363
Rental deposits	**449,730**	409,492
Advance ticket sales (note 5)	**512,000**	1,587,375
Deferred revenue (note 6)	**2,072,120**	2,261,328
	4,772,804	6,385,558
NET FINANCIAL ASSETS	$ **8,610,567**	$ 7,255,024
NON-FINANCIAL ASSETS		
Tangible capital assets (note 7)	$ **3,010,472**	$ 3,299,278
Inventory	**98,601**	84,940
Prepaid expenses and deferred charges	**48,274**	65,421
	3,157,347	3,449,639
ACCUMULATED SURPLUS (Schedule 2)	$ **11,767,914**	$ 10,704,663

Commitments to the City of Saskatoon (note 8)

The accompanying notes and supplementary schedules are an integral part of these financial statements.

Approved by the Board:

______________ Director

______________ Director

THE CENTENNIAL AUDITORIUM & CONVENTION CENTRE CORPORATION
STATEMENT OF OPERATIONS
Year ended December 31, 2016, with comparative information for 2015

	Budget (Note 13)	**2016**	2015
OPERATING REVENUE			
Sales	$ 11,138,568	**$ 10,198,539**	$ 10,938,419
Sponsorships	320,301	**346,490**	275,523
Interest income	175,000	**201,709**	176,500
	11,633,869	**10,746,738**	11,390,442
OPERATING EXPENDITURES			
Direct (Schedule 1)	$ 6,316,034	**$ 5,740,261**	$ 6,156,044
Plant maintenance (Schedule 1)	2,123,789	**1,998,835**	2,062,951
Administration (Schedule 1)	1,415,482	**1,299,461**	1,344,332
Amortization	420,000	**418,579**	460,648
	10,275,305	**9,457,136**	10,023,975
OPERATING MARGIN	$ 1,358,565	**1,289,602**	$ 1,366,467
OTHER REVENUE AND EXPENDITURES			
Funding by City of Saskatoon	500,000	**500,000**	500,000
Reimbursement to City of Saskatoon (note 8 and 11)	(726,351)	**(726,351)**	(726,043)
SURPLUS FOR THE YEAR	$ 1,132,214	**$ 1,063,251**	$ 1,140,424
ACCUMULATED SURPLUS, BEGINNING OF YEAR	10,704,633	**10,704,663**	9,564,239
ACCUMULATED SURPLUS, END OF YEAR (Schedule 2)	$ 11,836,877	**$ 11,767,914**	$ 10,704,663

The accompanying notes and supplementary schedules are an integral part of these financial statements.

THE CENTENNIAL AUDITORIUM & CONVENTION CENTRE CORPORATION
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
Year ended December 31, 2016, with comparative information for 2015

	Budget (Note 13)	**2016**	2015
Surplus for the year	$ 1,132,214	**$ 1,063,251**	**$ 1,140,424**
Acquisition of tangible capital assets	(491,343)	**(130,837)**	**(482,423)**
Amortization of tangible capital assets	420,000	**418,579**	**460,648**
Loss on disposal of tangible capital assets	–	**1,064**	–
	1,060,871	**1,352,057**	**1,118,649**
Use (acquisition) of inventory	–	**(13,661)**	**(7,646)**
Acquisition of prepaid expenses and deferred charges	–	**17,147**	**(9,630)**
CHANGE IN NET FINANCIAL ASSETS	1,060,871	**1,355,543**	**1,101,373**
NET FINANCIAL ASSETS, BEGINNING OF YEAR	7,255,024	**7,255,024**	**6,153,651**
NET FINANCIAL ASSETS, END OF YEAR	$ 8,315,895	**$ 8,610,567**	**$ 7,255,024**

The accompanying notes and supplementary schedules are an integral part of these financial statements.

THE CENTENNIAL AUDITORIUM & CONVENTION CENTRE CORPORATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2016, with comparative information for 2015

	2016	2015
OPERATING ACTIVITIES		
Surplus for the year	$ 1,063,251	$ 1,140,424
Non-cash items included in surplus for the year		
Amortization	418,579	460,648
Loss on disposal of tangible capital assets	1,064	–
Changes in non-cash working capital relating to operations		
Accounts receivable	198,201	243,622
Inventory	(13,661)	(7,646)
Prepaid expenses and deferred charges	17,147	(9,630)
Accounts payable and accrued liabilities	(388,409)	453,804
Rental deposits	40,238	95,039
Advance ticket sales	(1,075,375)	734,695
Deferred revenue	(189,208)	(69,484)
	71,827	3,041,472
CAPITAL ACTIVITIES		
Purchases of tangible capital assets	$ (130,837)	$ (482,423)
	(130,837)	(482,423)
INVESTING ACTIVITIES		
Purchases of investments	$ (5,000,000)	$ (1,000,000)
Disposal of investments	1,000,000	1,023,500
	(4,000,000)	23,500
NET INCREASE (DECREASE) IN CASH	(4,059,010)	$ 2,582,549
CASH POSITION, BEGINNING OF YEAR	8,219,466	5,636,917
CASH POSITION, END OF YEAR	$ 4,160,456	$ 8,219,466

The accompanying notes and supplementary schedules are an integral part of these financial statements.

1. AUTHORITY AND PURPOSE

The Centennial Auditorium & Convention Centre Corporation (the "Corporation") operates TCU Place, Saskatoon's Arts and Convention Centre, on behalf of its sole member, the City of Saskatoon.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The financial statements of the Corporation are prepared by management in accordance with Canadian public sector accounting standards ("PSAS") for local governments.

Significant aspects of the accounting policies adopted by the Corporation are as follows:

Measurement Uncertainty
The preparation of the financial statements in conformity with PSAS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenditures during the year.

Items requiring the use of significant estimates include determination of uncollectible accounts receivable, useful lives of tangible capital assets and related amortization.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from those estimates.

Investments
Investments consist of term deposits made to obtain a return on a temporary basis with maturity terms between one month and four years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tangible Capital Assets
Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, design, construction, development, improvement or betterment of the asset.

The costs, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Caretaking and maintenance	5 to 20 years
Computers	2 to 15 years
Kitchen	8 to 40 years
Theatre	10 to 60 years
Sound	10 to 20 years
Lighting	10 to 40 years
Furniture and fixtures	5 to 20 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of the future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expense in the statement of operations.

The TCU Place Saskatoon's Arts and Convention Centre building is owned and maintained by the City of Saskatoon.

Inventory
Inventory consists of merchandise held for resale and are stated at the lower of cost and net realizable value. Cost is determined on a first in first out basis.

Financial instruments
Financial instruments of the Corporation include cash, investments, accounts receivable and accounts payable and accrued liabilities. All financial instruments are measured at cost or amortized cost.

Transaction costs are a component of cost for financial instruments measured using cost or amortized cost.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

All financial assets are assessed annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition
All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Government transfers are recognized as revenues when the transfer is authorized, any eligibility criteria are met and reasonable estimates of the amounts can be made except to the extent that the transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

Contributions from other sources are deferred when restrictions are placed on their use by the contributor and are recognized as revenue when used for the specified purpose.

Unrestricted contributions and pledges are recognized as revenue when received. Gifts in kind are recorded at the fair market value on the date of their donations if they meet the Corporation's criteria for capitalization. Other in-kind donations of material and services are not recognized in these financial statements.

Revenue from events is recognized in the period that the event takes place, except for box office service charges that are recognized when tickets are sold. Sponsorship revenue is recognized on a straight line basis over the term of the contract. All other revenues are recognized in the period they are earned.

Employee Pension Plans
Employees of the Corporation participate in the City of Saskatoon's Superannuation Defined Benefit Pension Plan. The Corporation follows defined contribution accounting standards specific to a multi-employer plan for its participation in the plan whereby the Corporation's contributions are expensed when due.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserves

The capital expansion reserve is used to accumulate funds for eligible capital expenditures which will enhance the Corporation's existing range and quality of services.

The equipment replacement reserve is used to accumulate funds for the purpose of equivalent replacement of programming equipment not covered under other reserves.

The stabilization reserve is used to accumulate funds for the purpose of offsetting any operating deficits of the Corporation to a maximum of 5% of sales with any excess being transferred to the capital expansion reserve.

Statement of Remeasurement Gains and Losses

The Corporation has not presented a statement of remeasurement gains and losses because it does not have financial instruments that give rise to remeasurement gains or losses.

3. INVESTMENTS

	2016	2015
Term deposit, 1.80%, maturing April 28, 2020	$ **1,000,000**	$ –
Term deposit, 1.80%, maturing January 28, 2020	**1,000,000**	–
Term deposit, 2.15%, maturing April 5, 2019	**1,000,000**	1,000,000
Term deposit, 1.65%, maturing January 28, 2018	**1,000,000**	–
Term deposit, 2.50%, maturing April 28, 2018	**1,000,000**	1,000,000
Term deposit, 1.55%, maturing January 28, 2018	**1,000,000**	–
Term deposit, 2.50%, maturing April 28, 2017	**1,000,000**	1,000,000
Term deposit 1.45%, maturing January 28, 2017	**1,000,000**	–
Term deposit 2.55%, maturing April 5, 2016	**–**	1,000,000
	$ **8,000,000**	$ 4,000,000

4. ACCOUNTS RECEIVABLE

	2016	2015
Trade receivables	$ **802,676**	$ 1,060,002
Funding receivable from the City of Saskatoon	**300,000**	300,000
Interest receivable	**122,071**	67,262
Other receivables	**6,195**	4,472
Allowance for doubtful accounts	**(8,027)**	(10,620)
	$ **1,222,915**	$ 1,421,116

5. ADVANCE TICKET SALES

Advance ticket sales represent monies received in advance for events that have not yet taken place. Funds are held in trust by the Corporation and forwarded to the promoter upon settlement of the events. Contracts with promoters do not require the segregation of these monies from the on-going operating funds of the Corporation.

6. DEFERRED REVENUE

Deferred revenue represents funds received in advance for sponsorship contracts which will be recognized over terms of contracts ranging from 1 to 5 years. Funds received for naming rights will be recognized over 10 years.

	2016	2015
Sponsorship contracts	**$ 103,370**	$ 131,444
Naming rights	**1,968,750**	2,129,884
	$ 2,072,120	$ 2,261,328

7. TANGIBLE CAPITAL ASSETS

	2016			2015
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Caretaking and maintenance	$ 193,872	$ 93,769	**$ 100,103**	$ 70,909
Computers	616,891	487,356	**129,625**	139,740
Kitchen	978,689	430,695	**547,994**	567,271
Theatre	1,570,046	748,199	**821,847**	875,736
Sound	1,292,453	611,123	**681,330**	780,046
Lighting	779,406	478,585	**300,821**	352,922
Furniture and fixtures	1,263,087	834,335	**428,752**	512,654
	$ 6,694,534	$ 3,684,062	**$ 3,010,472**	$ 3,299,278

During the year, the Corporation reclassified tangible capital assets with an opening net book value of $72,617 from Theater to Sound, in order to better reflect the nature of these assets. 2015 comparatives have been revised to recognize this adjustment.

8. COMMITMENTS TO THE CITY OF SASKATOON

In connection with the productivity improvements and expansion done to the facility managed and operated by the Corporation, the Corporation agreed to reimburse the City of Saskatoon for a portion of the incurred costs. The reimbursement for these improvements to the facility, which is owned by the City of Saskatoon, are estimated to be due in each of the next five years and thereafter are as follows:

2017	$ 725,506
2018	725,649
2019	726,038
2020	725,732
2021	725,270
Thereafter	87,243
	$ 3,715,618

9. PENSION

Employees of the Corporation participate in a retirement plan of the City of Saskatoon who is responsible for the plan. The Corporation's obligation to the plan is limited to making required payments to match amounts contributed by employees for current services. Pension expense for the year amounted to $230,956 (2015 - $228,489) and is included in salaries and benefits.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation is exposed to financial risks from its financial assets and liabilities. These risks include credit risk, liquidity risk, and market risk.

Credit risk

The Corporation is exposed to the risk resulting from the possibility that parties may default on their financial obligations. Credit risk related to investments is minimized by dealing with institutions that have strong credit ratings. Credit risk associated with potential non-payment of accounts receivable from customers is minimized by proactive credit and collections management. The Corporation does not have significant exposure to any one customer and bad debts have historically been minimal. Other receivables primarily represent annual funding amounts due from the City of Saskatoon and the risk associated with this is not considered to be significant.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Liquidity risk
Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation manages liquidity risk by maintaining adequate cash balances and implementing budgeting and monitoring processes.

As at December 31, 2016, the Corporation had sufficient working capital to meet current obligations as they are due.

Market risk
Market risk consists primarily of interest rate risk and is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation's interest rate risk exposure relates to cash and investments. The impact of changes in interest rates is mitigated by investing in term deposits for shorter terms at fixed interest rates. The contribution of investment income to the Corporation's overall revenue is not significant.

11. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with the City of Saskatoon (the sole member of the Corporation) as well as with SaskTel Centre, which is related to the Corporation by virtue of common control by the City of Saskatoon (collectively referred to as "related parties"). Routine operating transactions with related parties are settled on normal trade terms.

The transactions and amounts outstanding at December 31st are as follows:

	2016	2015
Accounts receivable from City of Saskatoon	$ **321,274**	$ 315,816
Accounts payable and accrued liabilities to City of Saskatoon	**940,517**	1,298,260
Accounts payable to SaskTel Centre	**967**	3,740
Revenue from events held by City of Saskatoon	**121,141**	119,632
Utilities expenses charged by City of Saskatoon	**608,056**	540,516
Operating grant from City of Saskatoon	**500,000**	500,000
Reimbursement to the City of Saskatoon	**726,351**	726,043

12. RESERVES

Reserve balances at December 31st are as follows:

	2016	2015
Capital expansion	$ 4,150,796	$ 3,169,457
Equipment replacement	4,096,719	3,689,007
Stabilization	509,927	546,921
	$ 8,757,442	$ 7,405,385

13. BUDGETED FIGURES

Budgeted figures included in the financial statements were approved by the Board of Directors on October 29, 2015 and by the City of Saskatoon Council on November 30, 2015.

14. NEW ACCOUNTING STANDARDS

In 2016, the Corporation did not early adopt any new, revised or amended standards.

Management has determined the following standards, effective April 1, 2017, will not have a material impact on the Corporation's financial statements:

PS2200 – Related Party Transactions
PS3420 – Inter-entity Transactions
PS3210 – Assets
PS3320 – Contingent Assets
PS3380 – Contractual Rights

THE CENTENNIAL AUDITORIUM & CONVENTION CENTRE CORPORATION
SCHEDULE OF OPERATING EXPENDITURES
Year ended December 31, 2016, with comparative information for 2015

	Budget (Note 13)	**2016**	2015
DIRECT			
Cost of food and beverages	$ 3,056,761	**$ 2,536,317**	$ 2,974,963
Salaries and benefits	1,973,123	**1,977,978**	1,934,348
Supplies	696,350	**586,369**	683,044
Credit card charges	276,500	**378,464**	273,674
Theatre production costs	143,000	**135,081**	141,633
Advertising and promotion	106,000	**80,020**	94,779
Telephone	25,500	**22,913**	27,268
Other	24,800	**16,023**	21,666
Equipment maintenance	9,000	**9,397**	6,559
Bad debts (recovery)	5,000	**(2,301)**	(1,890)
	$ 6,316,034	**$ 5,740,261**	$ 6,156,044
PLANT MAINTENANCE			
Salaries and benefits	$ 966,986	**$ 897,922**	$ 927,784
Utilities	694,443	**705,552**	666,162
Maintenance	316,500	**247,016**	313,298
Insurance	110,860	**110,861**	120,568
Service contracts	35,000	**37,484**	35,139
	$ 2,123,789	**$ 1,998,835**	$ 2,062,951
ADMINISTRATION			
Salaries and benefits	$ 1,182,062	**$ 1,103,138**	$ 1,128,829
Travel	61,620	**45,002**	54,683
Office supplies and equipment	47,050	**37,599**	38,674
Training and staff morale	32,400	**10,568**	23,620
IT consultant and support	26,000	**31,728**	33,793
Professional fees	22,100	**22,100**	21,105
Bank charges and interest expense	13,000	**18,768**	13,524
Memberships, subscriptions and licenses	12,250	**10,837**	12,251
Printing and postage	12,000	**13,104**	11,727
Board of directors	7,000	**6,617**	6,126
	$ 1,415,482	**$ 1,299,461**	$ 1,344,332

THE CENTENNIAL AUDITORIUM & CONVENTION CENTRE CORPORATION
SCHEDULE OF RESERVES
Year ended December 31, 2016, with comparative information for 2015

		2016		2015
CAPITAL EXPANSION RESERVE				
Balance, beginning of year	$	**3,169,457**	$	2,102,277
Allocation from operations		**230,877**		230,877
Transfer from stabilization reserve		**683,960**		787,606
Interest earned		**66,502**		48,697
Balance, end of year	$	**4,150,796**	$	3,169,457
EQUIPMENT REPLACEMENT RESERVE				
Balance, beginning of year	$	**3,689,007**	$	3,631,425
Allocation from operations		**460,648**		460,648
Interest earned		**77,901**		79,356
Expenditures		**(130,837)**		(482,422)
Balance, end of year	$	**4,096,719**	$	3,689,007
STABILIZATION RESERVE				
Balance, beginning of year	$	**546,921**	$	553,034
Allocation from operations		**646,966**		781,493
Transfer to capital expansion reserve		**(683,960)**		(787,606)
Balance, end of year	$	**509,927**	$	546,921
TOTAL RESERVES	$	**8,757,442**	$	7,405,385
INVESTMENT IN TANGIBLE CAPITAL ASSETS		**3,010,472**		3,299,278
ACCUMULATED SURPLUS	$	**11,767,914**	$	10,704,663

City of Saskatoon

Board of Revision
c/o Office of the City Clerk
222 – 3rd Avenue North
Saskatoon SK S7K 0J5

www.saskatoon.ca
tel (306) 975-3240
fax (306) 975-2784

May 2, 2017

Secretary, Standing Policy Committee on Finance

Dear His Worship the Mayor and Members of City Council:

Re: 2016 Annual Report – Saskatoon Board of Revision (File No. CK. 430-77)

In accordance with the Board of Revision's Policy and Procedures, as Chair of the Board of Revision, I hereby submit the Board's 2016 Annual Report for City Council's information.

Background

Section 192 of *The Cities Act* provides for the establishment of a Board of Revision to deal with appeals arising from assessment procedures. The Board of Revision is set up as an independent administrative tribunal whose main function is to hear assessment appeals filed by any person or property owner.

Changes to legislation and decisions from the Court of Appeal have clearly established that the Board of Revision is the tribunal of record in the assessment appeal process. Persons wishing to appeal their assessments must present evidence before the Board of Revision to show that an error has been made. Appellants are precluded from presenting new evidence before the Saskatchewan Municipal Board, Assessment Appeals Committee, except in very minimal circumstances. Appeals before the Saskatchewan Municipal Board are based upon the record of the hearings before the Board of Revision.

Reassessments occur every four years and the year 2016 was the fourth year of reassessment based on property values for the Province of Saskatchewan as of January 1, 2011.

In 2009, the entire province of Saskatchewan moved to a results-based mass appraisal market system for most properties. Major changes for commercial, industrial and investment properties took place in the 2009 reassessment in that the Income Approach (Rental Income) to value was allowed. Hearings before the Board have become more complex.

An assessment appeal history for the years 2008-2016 is attached as Appendix D.

2016 Composition of the Board

The 2016 Board of Revision consisted of 11 members as follows:

Board Chair:	Adrian Deschamps
Panel Chair:	Asit Sarkar
Panel Chair:	Dave Gabruch
Members:	June Bold, Colin Butler, Marvin Dutton, Lois Lamon, Randy Pangborn, David J. Putz, Asit Sarkar, and Dennis Will.

The development of the skills, knowledge and expertise of a Board of Revision requires considerable time, and as such, the Board encourages City Council to continue to consider the extension of appointments of Board members beyond the six-year maximum term, particularly in reassessment years.

Appeals and Hearings

In 2016, the Board received 148 Notices of Appeal. The Board commenced hearings on April 13, 2016, considering and rendering decisions on 64 appeals. Appendix A is a summary of results of appeals heard by the Board of Revision in 2016.

A summary of time put in by Board members for the years 2002 to 2016, is attached as Appendix B. The comparable year for the year 2016 would be 2012 (being the final year of a four-year cycle). It is important to note that the legislation now provides for the parties to an appeal to file an "agreement to adjust" with the Board of Revision Office; thereby, reducing the number of appeals that require a hearing.

Decisions of the Board of Revision can be further appealed to the Assessment Appeals Committee, Saskatchewan Municipal Board (SMB). There were 49 decisions of the Board of Revision appealed to the SMB in 2016. The hearings for these appeals are currently being scheduled and heard, and it is expected that it will be some time until those decisions are rendered.

Appendix C provides a summary of results for the Board of Revision and the Assessment Appeals Committee, Saskatchewan Municipal Board, for the years 1997-2016.

As in past years, the Board wishes to commend the Board of Revision staff for its skill and knowledge. The expertise of the staff greatly contributes to the success experienced by the Board of Revision.

Yours truly,

SBryant

for: **Adrian Deschamps, 2016 Chair**
Board of Revision

Attachments

1. Appendix A – Board of Revision – 2016 Appeals Summary
2. Appendix B – Board of Revision – Members' Summary of Time
3. Appendix C – Board of Revision & Saskatchewan Municipal Board – 1997-2016 Statistics
4. Appendix D – Board of Revision – 2008-2016 Assessment Appeal History

APPENDIX A

Board of Revision – 2016 Appeals Summary

	Total Appeals Received	Dismissed (Fee not Paid) (Insuff. Grounds) (Refusal to Hear)	Withdrawn	Assessment Adjusted* (agreement btwn appt & assr.)	Assessment Adjusted Hrg & Dec. by Board	Assessment Sustained Hrg & Dec. by Board	Appeals Pending **
Residential:	**23**	**5**	**3**	**5**	**0**	**10**	**0**
(Sub-Class Condo)	7	1	0	1	0	5	0
(Sub-Class Res)	16	4	3	4	0	5	0
Commercial:	**123**	**2**	**38**	**15**	**33**	**21**	**0**
$150 Fee	1	0	0	1	0	0	0
$500 Fee	3	0	0	2	1	0	0
$750 Fee	119	2	38	12	32	21	14
Multi-Res: (Sub-Class MRES)	**2**	**0**	**0**	**2**	**0**	**0**	**0**
$150 Fee	0	0	0	0	0	0	0
$500 Fee	0	0	0	0	0	0	0
$750 Fee	2	0	0	2	0	0	0
***Totals**	**148**	**7**	**41**	**22**	**33**	**31**	**14**

* An agreement to adjust the assessment is a document signed by the Assessor and the Appellant. It does not need to be ratified by the Board. The result is recorded as Adjusted in the City's CIS database.
** 14 commercial appeals remain outstanding pending a Court of Queen's Bench applications and rulings.

APPENDIX B

Board of Revision – Members' Summary of Time (Breakdown by Task)
Year 4 of the Reassessment Cycle

	2004	2008	2012	2016
No. of Appeals Received	97	144	81	148
No. of Appeals Heard	57	95	17	64
No. of Board Members	11	8	10	10
Total Hearing Days	**31.5**	**38.5**	**34.5**	**32.5**
Avg. Hearing Days/Person	2.86	4.8	3.45	3.25
Total Deliberation Days	**16**	**15**	**15.5**	**19.5**
Avg. Deliberation Days/Person	1.45	1.87	1.55	1.95
Total Preparation Days	**16**	**17**	**15.5**	**21**
Avg. Preparation Days/Person	1.45	2.12	1.55	2.1
Total Decision-Writing Days	**21**	**52.5**	**15.5**	**18.5**
Avg. Decision-Writing Days/Person	1.91	6.56	1.55	1.85
Total Days for all Tasks	**84.5**	**123**	**81**	**91.5**
Avg. of Days for all Tasks/Person	7.68	15.38	8.1	9.15

APPENDIX C

Board of Revision & Saskatchewan Municipal Board – 1997-2016 Statistics

Year	Total # Appeals Received	# Withdrawn by Appellant	# Dismissed (Insufficient Grounds and/or Fees Not Paid)	# Adjusted (*Joint Rec. & Hearing)	# Sustained	# Decisions Appealed to SMB	# Withdrawn at SMB	# Assessments Adjusted as Result of SMB Ruling
1997	754	220	33	255	246	39	9	5
1998	306	86	1	107	112	90	15	11
1999	150	87	2	32	29	23	1	9
2000	42	16	0	16	10	3	0	0
2001	833	277	42	288	226	176	16	33
2002	280	148	6	61	65	69	21	19
2003	228	48	3	120	57	57	8	17
2004	97	40	0	43	14	21	14	5
2005	699	224	26	288	160	145	6	87
2006	171	38	2	52	79	108	16	9
2007	245	56	62	79	48	103	31	30
2008	144	32	3	49	60	97	8	77
2009	420	179	13	198	30	74	6	9
2010	109	31	5	50	20	40	8	1
2011	116	25	5	67	19	41	12	0
2012	81	37	1	34	9	13	1	0
2013	434	104	22	178	129	92	5	15
2014	176**	32	5	80	53	106	4	26
2015	205**	108	6	25	45	39	Not Available	Not Available
2016	148	41	7	55	31	49	2	0

**The Cities Act* allows for an "Agreement to Adjust..." between the Assessor and the Appellant which no longer has to be ratified by the Board and the result is recorded as "Adjusted".

**Note: 14 appeals are pending Court of Queen's Bench applications and rulings

APPENDIX D

Board of Revision – 2010-2016 Assessment Appeal History

	2016*	2015	2014	2013	2012	2011	2010
Appeals Received - Residential	16	11	2	76	7	13	11
Appeals Received - Condo Units	7	23	6	56	1	4	4
Appeals Received - Commercial	123	168	168	284	47	76	56
Appeals Received - Multi-Res	2	3	0	18	26	23	38
Appeals Received - Total	**148**	**205**	**176**	**434**	**81**	**116**	**109**
Total Appeals Dismissed - as per Legislation	7	6	5	22	1	5	5
Total Appeals Withdrawn - No Action Taken	41	108	32	104	37	25	32
Total with Assessment Adjusted through Agreement between Assessor and Appellant	22	25	24	121	28	35	22
Total with Assessment Adjusted through Board Hearing	33	11	57	57	6	6	32
Total with Assessment Sustained through Board Hearing	31	45	53	129	9	9	19
Total Appeals Pending Hearing (Court of Queen's Bench or Supp)	**14**	**5**	**5**				

***2016 is the fourth year of the reassessment cycle. 2012 is the equivalent year of the previous cycle.**

Thompson, Holly (Clerks)

From:	Dave Hunchak <dhunchak1@sasktel.net>
Sent:	Tuesday, May 23, 2017 9:56 AM
To:	Web E-mail - City Clerks
Cc:	Tammy.VanLambalgen@areva.com
Subject:	Attn: SPC FInance for May 29 Meeting
Attachments:	2017-05-23 CDM Letter to Finance Committee.pdf

To City Clerk's office,

Please find attached a letter to the SPC Finance regarding the Mendel Building upgrades for the Children's Discovery Museum. We would ask that this letter be included in the agenda for the May 29th Finance Committee meeting and would appreciate the opportunity to speak to it for a few minutes at that meeting and answer any questions that the committee may have.

Please confirm that you have received this and let me know if there is anything further that we need to provide.

Thank you,

Dave Hunchak, P.Eng.

Chair, Children's Discovery Museum, Facilities Committee
C: (306) 230-2880
E: dhunchak1@sasktel.net

Date: May 23, 2017

To: City of Saskatoon Finance Committee

From: Children’s Discovery Museum (CDM)

Re: Mendel Building Upgrades

In July 2016, City Council approved a joint City/CDM construction project to integrate City building upgrades with CDM renovations to construct a children’s museum in the iconic Mendel Building. This joint project is expected to reduce costs, better coordinate technical issues, improve schedule management, limit safety risk and leverage in-kind services (report excerpt attached).

We have already realized such synergies, with the CDM including the City’s upgrades and asbestos costs in its federal Cultural Spaces Fund grant application. Preliminary figures from the CDM’s application show that the grant amount will fully cover the City’s asbestos remediation costs.

In project planning, the City’s report from WSP consultants separated the list of building upgrades into Phase 1 “immediate” and Phase 2 “within 5 years” (attached). Our project intent was to proceed only with Phase 1 upgrades. The CBCM has allocated $1.5M for this work.

However, our joint project team has made two major findings which point to the need to integrate the two phases:

1) If Phases 1 and 2 are done concurrently, $513K in estimated savings would be generated (attached). This amounts to 29% of Phase 2 costs. Significant further cost savings are likely, pending detailed estimates.

CHILDREN'S DISCOVERY MUSEUM on the Saskatchewan

2) Proceeding as planned with dividing the work into two phases would result in sub-optimal building systems that are unacceptably difficult and expensive to maintain and operate; leading to accountability, interface, and warranty problems during construction, operation, and maintenance.

Our project team is strongly recommending that the Phase 2 upgrades cannot practically be delayed and should be executed at the same time as the rest of the work.

We understand that expanding the scope to include Phase 2 is a decision that can't be made until 2018 budget deliberations. However, to maintain project schedule a defined scope is needed for design work to proceed. This can not wait until budget release in December without significantly delaying the project. The joint City/CDM design team is in place and ready to proceed in order to meet the target opening date of January 2019 (schedule attached).

We respectfully ask the City of Saskatoon to:

- Direct City staff to work with the CDM to proceed immediately with Phase 1 and 2 integrated design work, in order to generate detailed estimates of the full extent of integrated cost and time savings which Phase 1/2 integration would produce;
- Direct City staff to work with the CDM on using these detailed estimates to prepare revised project scope options for Council to consider in its 2018 budget deliberations.

We would appreciate the opportunity to have CDM representatives speak to this request at the May 29, 2017 Finance Committee meeting.

Thank you,

Dave Hunchak

Dave Hunchak (Chair, CDM Facilities Committee)
Cc: Tammy Van Lambalgen (Chair, CDM Board)

Design and Construction Agreement for the Repair and Renovation of the Mendel Building

Recommendation
That the Standing Policy Committee on Finance recommend to City Council:
1. That the City of Saskatoon enter into a design and construction agreement to repair and renovate the Mendel Building with the Children's Discovery Museum on the Saskatchewan Inc. based on the key terms set out in this report;
2. That the City of Saskatoon endorse submission of this combined project by the Children's Discovery Museum to the Canada Cultural Spaces Fund; and
3. That the City Solicitor be requested to prepare the appropriate agreement and that His Worship the Mayor and the City Clerk be authorized to execute the agreement under the Corporate Seal.

Topic and Purpose
The purpose of this report is to outline the key terms for a design and construction agreement between the City of Saskatoon (City) and the Children's Discovery Museum on the Saskatchewan Inc. (Museum) and to ensure that this agreement is used as an opportunity to repair and renovate the Mendel Building in an efficient, coordinated and cost-effective manner.

Report Highlights
1. Capital replacements and repairs are planned for the Mendel Building when it is vacated. High-priority items include remediation of asbestos, a new boiler, new sprinklers, replacement of the fire alarm system, and accessibility improvements.
2. A combined project with the Museum as lead is recommended to integrate the City's capital replacement and repairs with the Museum's tenant improvements.
3. The benefits and rationale for a combined project include better coordination of technical issues, improved schedule management, limitation of construction safety risk, and greater leverage of in-kind services.
4. The City's capital costs will be included in a grant request to the Canada Cultural Spaces Fund. The maximum potential grant to the City would be $1.1M, which amounts to 50% of these costs.

Strategic Goals
This report supports the Strategic Goals of Asset and Financial Management, Quality of Life, and Sustainable Growth. The proposed project will improve a City-owned asset and increase access and functionality of this cultural facility. It also supports the City Centre as a cultural and entertainment district and preserves the character of the Mendel Building as a heritage structure.

Background
At its meeting on December 14, 2015 City Council resolved:

> "1. That an Offer to Lease Agreement between the City of Saskatoon and the Children's Discovery Museum on the Saskatchewan Inc. for a portion of

> the Mendel Building based on the terms as set out in the following report be approved;"

This Agreement was executed earlier this year. Consistent with direction from City Council (August 2010), the City maintains ownership of the building and grounds, and the Conservatory will remain under the management and operation of the Parks Division.

Report

The Mendel Building requires capital replacements and repairs by the City prior to the commencement of operations by the Museum of their tenant area. The Museum will also be carrying out tenant improvements within the Mendel Building in order to create spaces and environments to support their program. The City and Museum have identified that there is an opportunity to achieve efficiencies by combining responsibilities under a single design and construction agreement.

Capital Replacements and Repair

In 2013, the City completed a *Mechanical and Electrical Systems Conditions Assessment* to define, prioritize and cost the upgrades needed to these systems. Top priorities are: adding sprinklers; water pipe upgrade; boiler replacement; building management system; energy and electrical meters for the conservatory; and fire alarm system replacement. Integrating the design of these components with the Museum's design of their tenant area will minimize rework and associated costs.

The City recently completed an asbestos review of the Mendel Building. Asbestos-containing materials are used throughout the building. Asbestos remediation efforts are considered high-risk in nature and, therefore, a comprehensive approach to removing all materials when the building is unoccupied has been recommended. This means that for a five-month period, only asbestos abatement specialists would be allowed onsite. This is expected to impact both schedule and budget.

In addition, the Mendel Building does not meet standards for accessibility regarding access to public washrooms and the lower level lobby. The preliminary Museum master plan includes an additional elevator and accessible washrooms.

Combined Project with Museum as Lead

This report proposes combining the design and implementation of the City's required capital replacement and repairs with the Museum's tenant improvements into a single project led by the Museum. The intent is to combine work under a single contract in order to achieve the most coordination while also minimizing cost, risks, and time impacts. The Museum has retained Strata Development as construction manager and Kindrachuk Agrey as architect and is ready to assume this lead role immediately.

A third-party cost estimate for the City's portion will be prepared and would be used to determine the City's financial contribution to the project. The City would pay proportionally for the management, design, tendering, and construction of the capital replacement and repairs for the required base building work.

The proposed key terms for a combined project are included in Attachment 1.

Asbestos removal by abatement specialists would be undertaken by the City outside the scope of this agreement. It would proceed as soon as possible once the Gallery has vacated the building.

Benefits and Rationale of Combined Project

The proposed key terms for a design and construction agreement are based on previous civic agreements with the Friends of the Bowl and the Friends of the Forestry Farm Park and Zoo for renovation and improvements to civic assets. Benefits of this approach are as follows:

- Better integration and coordination than two separate projects, resulting in fewer errors and less likelihood of delay.
- Reduced design costs from an integrated process.
- Reduced occupational health and safety risk by having fewer contractors on site.
- Lower construction bids due to the Museum's lead as a non-profit organization.
- Greater opportunities for the Museum for fundraising through in-kind sponsorships.
- Clarification of public perception that the Museum is an independent initiative (i.e. not City-led).

Grant request to the Canada Cultural Spaces Fund

The Museum has completed several steps in the application process for Department of Canadian Heritage funding under the Canada Cultural Spaces Fund and proposes that the City's capital and asbestos costs be included in this grant request. The Administration supports this idea. Grant guidelines require that, to be eligible, this application requires permission from the City as owner of the Mendel Building. If endorsed by City Council, the Administration will provide a letter of support accordingly.

If the Canada Cultural Spaces Fund grant application is successful, up to 50% of City costs could be covered. This would allow resolution of the unanticipated asbestos costs. It would also allow the City to fund most of the accessibility upgrades identified by the Museum. If unsuccessful, the Administration will provide a further report identifying how to address these outstanding items.

Options to the Recommendation

City Council may choose instead to proceed with a stand-alone design and construction scope only for the building's capital replacements and repairs.

November 27, 2014

File No: 141-23957-00

Gord Hundeby, P.Eng.
Project Services Manager
Cosmo Civic Centre
3130 Laurier Drive
Saskatoon, SK S7L 5J7

email: gord.hundeby@saskatoon.ca

Subject: **Mendel Building**
Mechanical & Electrical System Renewal – Revision 1

WSP has been requested to prioritize the mechanical and electrical upgrades identified in the 2013 Mechanical and Electrical Systems Condition Assessment Report, as well as update opinions of probable cost (2017 dollars).

We understand that the City of Saskatoon has separated the upgrades identified in the 2013 Report into two categories:

1. Improvements required for base building to accommodate proposed leasehold improvements (Children's Discovery Museum).
2. Improvements required during subsequent 5 years after Tenant Improvements have been completed.

MECHANICAL SYSTEMS

Mechanical upgrades are prioritized with life safety first, critical infrastructure second, and building operation third. These are shown on the following list as A – for immediate purposes.

Other items identified in the 2013 report are included in the B – subsequent upgrades and are not listed by priority.

ELECTRICAL SYSTEMS

In our opinion, the most important electrical system upgrades are those associated with life safety systems; in particular, the fire alarm system. Other electrical upgrades that should be completed prior to leasing the building is the upgrade to the electrical service for the Civic Conservatory. This will accommodate separate electrical metering from the leased area.

WSP Canada Inc.
203 Wellman Crescent
Saskatoon, SK S7T 0J1

Phone: 306.665.6223
Fax: 306.665.8589
www.wspgroup.com

Remaining electrical system upgrades should be budgeted to occur in the near future so that the aging electrical infrastructure remains operational. These upgrades include replacement of panelboards, replacement of electrical conductors (wiring), and replacement of any 240V three phase motor control equipment (starters), remaining subsequent to upgrading of the air handling units.

SUMMARY OF MECHANICAL AND ELECTRICAL UPGRADES OPINION OF PROBABLE COST (Prorated to 2017)		
A.	*Immediate upgrades to Base Building to accommodate leasehold improvements.*	
M1	Automatic wet pipe sprinkler system	$350,000.00
M2	Replace air handling units	$500,000.00
M3	Replace steam heating (boiler plant, piping)	$300,000.00
M4	Replace building control system with DDC Building Management System	$150,000.00
M5	Provide energy meter for Conservatory	$10,000.00
M6	Inspect existing sanitary sewer service/test for lead in potable water systems	$3,000.00
E1	Fire Alarm System Replacement	$55,000.00
E2	Separate electrical meter for Civic Conservatory	$11,000.00
E3	Upgrade motor control equipment associated with replacement of air handling units.	$50,000.00
A.	TOTAL	$1,429,000.00
B.	*Subsequent Mechanical and Electrical Upgrades*	
M1	Replace chiller	$200,000.00
M2	Renew plumbing fixtures	$30,000.00
M3	Replace unit heaters	$50,000.00
M4	Add humidifiers on air handling units	$30,000.00
E1	Upgrade exit lighting	$25,000.00
E2	Replace aging electrical panels	$40,000.00
E3	Replace aging electrical wiring	$110,000.00
E4	Upgrade Civic Conservatory Lighting	$20,000.00
E5	Upgrade remaining motor control equipment	$15,000.00
B.	TOTAL	$520,000.00

Engineering consulting fees are estimated to be approximately $184,000.00 based on 'A' scope items only. These are based upon standard SAA/ACEC recommended rates.

Mendel Building Upgrades-- Phases 1 & 2 and Project Integration Savings

COSTS			
Phase 1		**Phase 2**	
Sprinkler	$ 350,000	Replace air handling units	$ 500,000
Boiler replacement	$ 300,000	Replace chiller	$ 200,000
DDC Building mgmt system	$ 150,000	Replace aging wiring	$ 110,000
Architectural - Making Good	$ 60,000	Architectural - Making Good	$ 60,000
Fire Alarm system replacement	$ 55,000	Motor control equip't for AHU's	$ 50,000
Services - water pipe upgrade	$ 50,000	Replace unit heaters	$ 50,000
Conservatory electrical meter	$ 11,000	Replace electrical panels	$ 40,000
Conservatory energy meter	$ 10,000	Renew plumbing fixtures	$ 30,000
Sani sewer inspect/lead test	$ 3,000	Add humidifiers on AHU's	$ 30,000
Soft Costs*	$ 498,558	Upgrade exit lighting	$ 25,000
Site & Ancillary Costs	TBD	Upgrade conservatory lighting	$ 20,000
Subtotal	**$ 1,487,558**	Upgrade motor control equipment	$ 15,000
		Soft Costs*	$ 442,675
		Site & Ancillary Costs	TBD
CBCM funding in place	**$ 1,500,000**	5-Yr Delay Cost Escalation (12%)*	$ 188,721
		Subtotal	**$ 1,761,396**
		Cost savings identified by CDM	**$ 513,721**
			(29%)
		Unfunded Phase 2 costs	**$ 1,247,675**

Note
* Items not included in WSP estimate

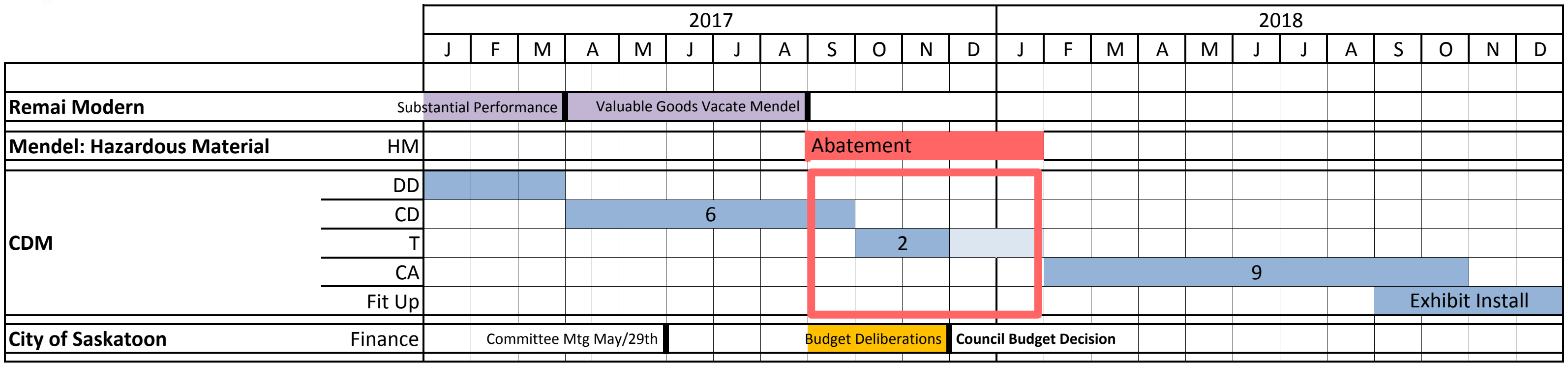
Cost savings if Phase 1 & 2 combined	
Cost escalation (12%)	$ 188,721
Soft Costs	$ 95,000
Replace air handling units	$ 85,000
Motor control equip't for AHU's	$ 50,000
Architectural - Making Good	$ 50,000
Add humidifiers on AHU's	$ 30,000
Upgrade motor control equipment	$ 15,000
Total savings	**$ 513,721**

KINDRACHUK AGREY
ARCHITECTURE

Mendel Building: Base Building Rejuvenation & Interior Improvements

Assumption: Remai Modern vacate of Mendel as of Sep/1st/2017

May 17, 2017



Residential Lot Sales – Showhome Policy Exemption Request

Recommendation

1. That an exemption be granted under Council Policy No. C09-010, Residential Lot Sales – Showhome Policy, to Riverbend Developments Ltd. to allow two showhomes to run concurrently with financial incentives; and

2. That, if approved, the exemption also be granted to other Eligible Contractors requesting to open two showhomes in the same subdivision during the 2017 Parade of Homes, assuming all other requirements are met.

Topic and Purpose

The purpose of this report is to request an exemption on the number of lots an Eligible Contractor can receive the financial incentive as per Section 3.2(h) of Council Policy No. C09-010, Residential Lot Sales – Showhome Policy (Showhome Policy).

Report Highlights

1. Riverbend Developments Ltd. has requested to open two showhomes during the annual Parade of Homes.
2. The Showhome Policy only allows for one showhome to be open at a time per subdivision, but does allow for an exemption during home parades if approved by the Standing Policy Committee on Finance.

Strategic Goals

This report supports the four-year priority of communicating the financial benefit of environmental initiatives under the Strategic Goal of Environmental Leadership.

Background

The Showhome Policy was created on September 9, 1991, to encourage the development of showhomes as a marketing tool to promote the sale of Saskatoon Land's single-family lots. It encourages sustainable, single-family construction by requiring the home be built to a minimum energy-efficient standard.

Report

<u>Parade of Homes</u>

The Parade of Homes is an annual home showcase administered by the Saskatoon and Region Home Builders' Association. The 2017 event runs from August 8 to September 17. This event not only showcases houses built by Saskatoon Land's Eligible Contractors, but also its newly developed communities.

In order to encourage showhomes in Saskatoon Land developments, the Showhome Policy was created to rebate Eligible Contractors 10% of the lot price if they meet the following conditions:

- Must be an Eligible Contractor with Saskatoon Land.
- The showhome must be built as an energy efficient home (Energy Star®, LEED® Canada for Homes, R-2000 Certified, or have a minimum EnerGuide® rating of 81).
- Must be open to the public for a minimum of 14 hours a week for a continuous 8 week period.
- Must have a completed interior and exterior and must be appropriately furnished.
- Showhomes open between June and September must be grassed or turfed in the front yard.

<u>Exemption</u>
The Showhome Policy only allows for one home per Eligible Contractor to be open at a time in a subdivision. The Policy has an exemption that can be granted by the Standing Policy Committee on Finance for special events such as home parades. Riverbend Developments Ltd. has requested the exemption as they are currently planning on opening two showhomes in the Aspen Ridge neighbourhood. They are aware that they must meet all other conditions in order to qualify for the rebate. Saskatoon Land would also like to ensure that if any additional Eligible Contractors make the same request between now and the start of the Parade of Homes, that they would also qualify for the exemption.

Options to the Recommendation
The Standing Policy Committee on Finance can deny the request and allow the financial incentive to apply to one showhome lot, as per current Policy.

Public and/or Stakeholder Involvement
Public and/or stakeholder involvement is not required.

Policy Implications
Section 3.2(h) of the Showhome Policy allows an exemption for one additional showhome in home parades.

Financial Implications
The showhome incentive allows for a refund of 10% of the lot purchase back to the Eligible Contractor. The incentive is paid from the Neighbourhood Land Development Fund in which sufficient funds are budgeted to pay for the rebate.

Other Considerations/Implications
There are no environmental, privacy, or CPTED implications or considerations, and a communication plan is not required.

Due Date for Follow-up and/or Project Completion

No follow-up is required.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Report Approval

Written by:	Jeremy Meinema, Finance & Sales Manager
Reviewed by:	Frank Long, Director of Saskatoon Land
Approved by:	Kerry Tarasoff, CFO/General Manager, Asset & Financial Management Department

Showhome Policy Exemption Request.docx

Quarterly Report – Builder and Developer Lot Supply – May 1, 2017

Recommendation
That the information be received.

Topic and Purpose
The purpose of this report is to provide information on builder and developer inventory levels for residential and industrial land in Saskatoon.

Report Highlights
1. Land developers in Saskatoon have 1,127 residential lots in inventory, and there is a builder inventory of 851 residential lots.
2. Land developers in Saskatoon are projected to service and release 634 single-family lots in 2017, dependent on inventory levels and absorption rates.
3. Land developers and builders have approximately 125 acres of multi-family land in inventory, which can potentially accommodate approximately 2,800 dwelling units.
4. There is a healthy supply of vacant industrial land held by recent industrial land purchasers and Saskatoon Land.

Strategic Goal
Measuring serviced land supply on an ongoing basis ensures sufficient inventory is available to accommodate new employment and housing growth in Saskatoon's economy. This supports the long-term strategy of increasing revenue sources and reducing reliance on residential property taxes under the Strategic Goal of Asset and Financial Sustainability.

Background
The Land Bank Committee, at its meeting held on March 18, 2011, resolved, in part:

> "that the Administration be requested to provide a quarterly update on the Builder and Developer Inventory Report."

Report
<u>Residential Lot Inventory</u>
This report identifies single-family and multi-family inventory held by homebuilders and land developers, as well as projected single-family lot availability by neighbourhood for 2017 from major land developers in Saskatoon. In addition, this report identifies industrial inventory held by Saskatoon Land and recent purchasers of industrial land in the city's industrial growth areas.

Figure 1 (Attachment 1) identifies historic new single-family, two-family and multi-family dwelling units per year from 2001 to May 1, 2017.

Single-Family Inventory

Table 1 identifies single-family lot inventory held by homebuilders and land developers as of May 1, 2017.

Table 1: Single-Family Inventory, May 1, 2017

Neighbourhood	**Builder Inventory**	**Developer Inventory**		**Unreleased Developer Inventory**		**Totals**
		City	Private	City	Private	
Arbor Creek	3	0	0	0	0	3
Aspen Ridge	101	68	0	115	0	284
Briarwood	6	0	0	0	0	6
Brighton	224	0	4	0	0	228
Evergreen	98	36	0	0	0	134
Hampton Village	3	2	0	0	0	5
Kensington	293	139	63	262	0	757
Parkridge	5	148	0	0	0	153
Rosewood	67	8	10	0	270	355
Stonebridge	42	0	0	0	0	42
Westview	0	2	0	0	0	2
Willowgrove	4	0	0	0	0	4
The Willows	5	0	0	0	0	5
Totals	**851**	**403**	**77**	**377**	**270**	**1,978**

As Table 1 indicates, as of May 1, 2017, a total of 851 single-family lots were held by builders and 480 single-family lots were held by developers, for a total of 1,331 single-family lots. The developer inventory consisted of 403 single-family lots produced by Saskatoon Land, and 77 single-family lots produced by private developers. In addition to the 480 single-family lots held by developers, it should be noted that developers have 647 additional single-family lots, which have been completely serviced. Servicing of these lots was recently completed in 2016 or in prior years, but have yet to be released to the market by land developers. This results in an approximate total of 1,978 lots being available for new home construction throughout the remainder of 2017.

A large majority of developer inventory is located within the suburban neighbourhoods of Kensington and the Parkridge extension. Due to the inventory on the west side of the city, developers have adjusted servicing plans accordingly and do not plan to service any new lots in the next few years on the city's west side until a portion of existing inventories are absorbed.

Table 2 identifies new single-family lot availability projected for 2017.

Table 2: Projected New Residential Lot Availability, 2017

Neighbourhood	City		Dream		Other Developers		Totals	
	Jan-June	July-Dec	Jan-June	July-Dec	Jan-June	July-Dec	Jan-June	July-Dec
Aspen Ridge	122	115	0	0	0	0	122	115
Brighton	0	0	0	157	0	0	0	157
Kensington	85	0	0	0	0	0	85	0
Rosewood	0	0	0	0	174	96	174	96
Totals	**207**	**115**	**0**	**157**	**174**	**96**	**381**	**368**
Total - 2017							**749**	

Saskatoon Land recently held a lot draw for 122 lots in the second phase of the Aspen Ridge neighbourhood, with 81 lots being sold. A further 115 lots may be released in fall 2017. Saskatoon Land also anticipates the release of 85 single-family lots in Kensington in June 2017. These lots would be sold in groupings through the open market (standard terms) sales approach. In addition, Saskatoon Land has the capability of releasing additional lots the Kensington neighbourhood, should market demand warrant it. Further lot releases in both Aspen Ridge and Kensington will be dependent on absorption over the next six months, and a decrease in current inventory levels.

Similar to Saskatoon Land, private developers have indicated that further lot releases in 2017 will be dependent on their current inventory levels, and absorption rates in each of their respective market areas.

The Monthly Building Permit Report indicates that as of May 1, 2017, building permits were issued for 301 single-family dwelling units and 28 two-family dwelling units. By comparison, at the same point in 2016, building permits were issued for 283 single-family dwelling units and 18 two-family dwelling units. Year over year, this is an increase of approximately 6% in new single-family dwelling units and an increase of approximately 56% in new two-family dwelling units.

Figure 2 (Attachment 1) shows historical single-family inventory levels held by builders and developers since 2011. There has been a gradual shift between builders and developers regarding single-family inventory levels. Beginning in 2015, developers held more single-family inventory, while builders have been holding less inventory. This result is due largely to the moderation from the robust housing market experienced in Saskatoon over the past few years, coupled with an increase in inventory levels and a higher number of residential MLS listings on the market.

Multi-Family Inventory

Table 3 identifies the multi-family inventory held by home builders and land developers as of May 1, 2017.

Table 3: Multi-Family Inventory, May 1, 2017

Neighbourhood	Builder Inventory		Developer Inventory				Totals	
			City		Private			
	Acres	Possible Dwelling Units	Acres	Possible Dwelling Units	Acres	Possible Dwelling Units	Acres	Possible Dwelling Units
Blairmore Suburban Ctr	4.05	243	4.84	97	0	0	8.89	340
Brighton	0	0	0	0	14.95	371	14.95	371
Evergreen	11.91	236	42.97	949	0	0	54.88	1,185
Kensington	2.65	53	4.62	69	2.05	31	9.32	153
Lakewood	3.82	152	0	0	0	0	3.82	152
Rosewood	9.98	149	0	0	4.47	81	14.45	230
Stonebridge	16.37	335	0	0	0	0	16.37	335
Willowgrove	2.03	81	0	0	0	0	2.03	81
Totals	**50.81**	**1,249**	**52.43**	**1,115**	**21.47**	**483**	**124.71**	**2,847**

Note: The average density of development indicated in Table 3 is approximately 22 units per acre. This ranges from 15 units per acre for most group townhouse sites, to 40 units per acre for three-storey buildings, to 60 units per acre for M3 lands in the Blairmore Suburban Centre and Stonebridge.

According to the Monthly Building Permit Report, as of May 1, 2017, building permits were issued for a total of 168 residential units on multi-family sites. By comparison, at the same point in 2016, building permits for 176 units on multi-family sites had been issued. Year over year, this is a decrease of approximately 5% in multi-family dwelling unit permits in the city.

Canada Mortgage and Housing Corporation's fall 2016 Housing Market Outlook for the Saskatoon Census Metropolitan Area (CMA) anticipates between 700 to 1,050 multi-family housing starts in the Saskatoon CMA in 2017. This figure is in line with 2016 numbers, though is down from starts experienced prior to 2016. The decline in number of multi-unit dwelling starts in 2016, and the first half of 2017 is mostly due to a significant reduction in apartment starts.

Figure 3 (Attachment 1) shows multi-family inventory levels held by builders and developers since 2011. Inventory levels of multi-family land for both developers and builders have remained relatively stable within the last year, though builder inventories have marginally decreased as a result of a modest number of starts on townhouse style developments.

Industrial Land Inventory
Table 4 identifies industrial land inventory held by Saskatoon Land and recent purchasers in the Marquis and South West Industrial areas as of May 1, 2017.

Table 4: Industrial Inventory, May 1, 2017

Neighbourhood		**Vacant Sites (Sold/Optioned)**		**Unsold Sites (Inventory)**		**Total**
		IL	IH	IL	IH	
Marquis Industrial	No. of sites	33	27	3	11	74
	Area (ac)	66.11	66.21	4.3	30.32	166.94
South West Industrial	No. of sites	14	0	3	0	17
	Area (ac)	22.50	0	3.42	0	25.92
Total No. of Vacant Sites						**91**
Total Area (ac)						**192.86**

Note: IL denotes Light Industrial Zoning District, IH denotes Heavy Industrial Zoning District.

As indicated in Table 4, there are 192.86 acres of industrial land held by developers or recent purchasers.

The release of additional industrial lands to the market in 2017 located within both the Southwest Industrial area and the Marquis Industrial area will be determined based on an ongoing review of industrial land market demand. The absorption rate within industrial areas remains steady. Since the Builder Developer Quarterly Report – January 1, 2017, permits have been issued for four parcels, totalling approximately 10 acres within the Marquis Industrial area.

Due Date for Follow-up and/or Project Completion
This report is produced by Saskatoon Land on a quarterly basis. The next quarterly report will be tabled at the September 5, 2017, Standing Policy Committee on Finance meeting.

Public Notice
Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

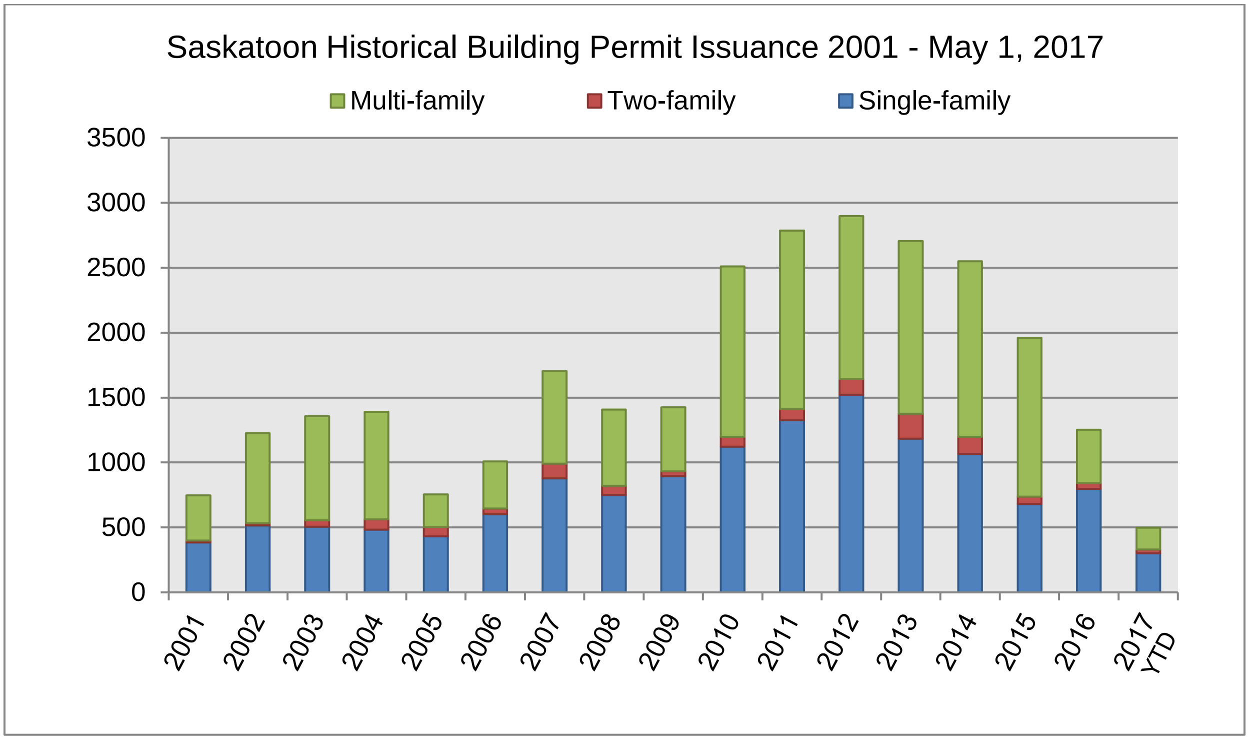
Attachment
1. Report Figures

Report Approval
Written by: Matt Grazier, Senior Planner
Reviewed by: Frank Long, Director of Saskatoon Land
Approved by: Kerry Tarasoff, CFO/General Manager, Asset & Financial Management Department

Builder Developer Quarterly Report May 1 2017.docx

REPORT FIGURES

Figure 1: New Dwelling Units by Building Classification in Saskatoon, 2001 to May 1, 2017



Source: City of Saskatoon, Building Standards, Monthly Building Permit Report

Figure 2: Single-Family Builder and Developer Inventory Levels, 2011 to May 1, 2017

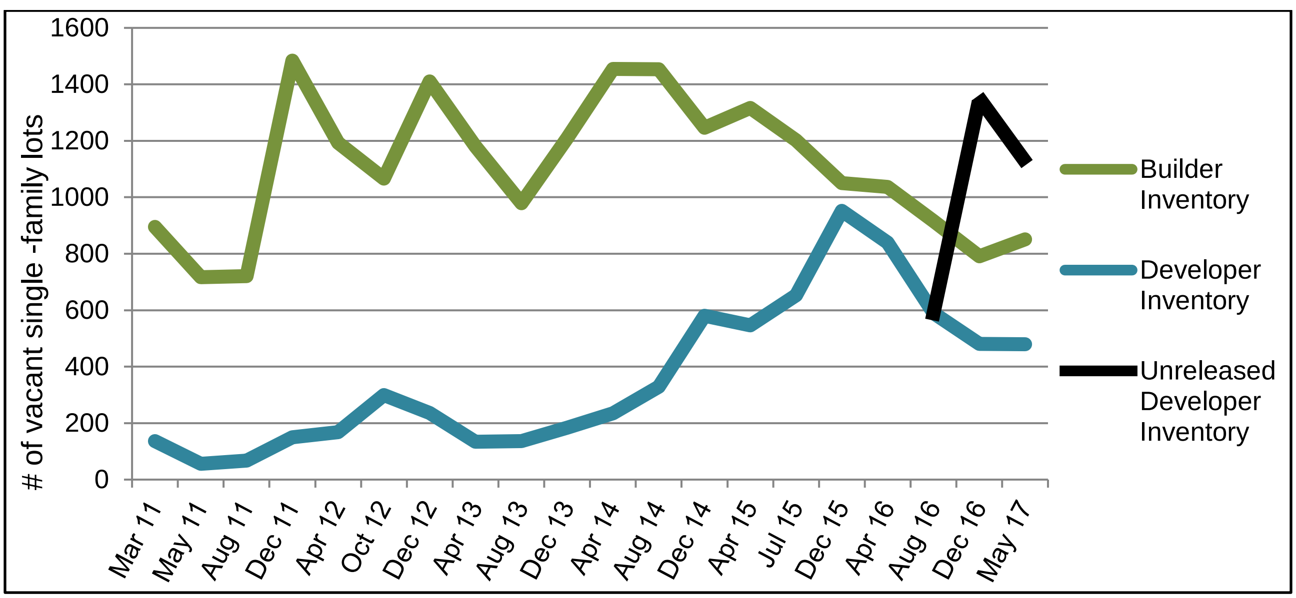
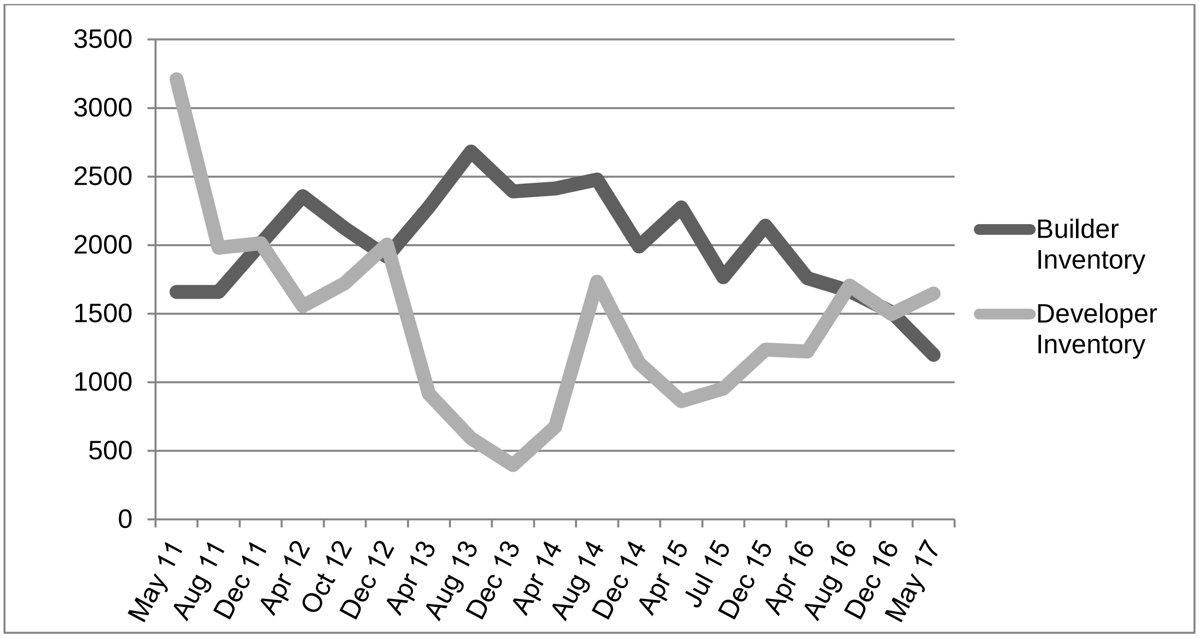


Figure 3: Multi-Family Dwelling Unit Builder and Developer Inventory Levels, 2011 to May 1, 2017



Factors in Determining External Contracted Services

Recommendation
That the information be received.

Topic and Purpose
The purpose of this report is to inform the Standing Policy Committee on Finance of the factors that are considered by the Administration when awarding external contract services.

Report Highlights
1. The Administration considers a number of factors to determine if existing resources are available to complete projects without disrupting expected current service levels.
2. When considering the use of specialized services or additional resources, multiple factors are taken into consideration.

Strategic Goal
This report supports the Strategic Goal of Asset and Financial Sustainability by being open, accountable and transparent, particularly when it comes to the resource allocation and collection decisions the City of Saskatoon (City) makes.

Background
At its meeting on March 7, 2016, when considering a report from the CFO/General Manager, Asset and Financial Management Department, outlining the City's use of consulting services in 2015, the Standing Policy Committee on Finance resolved, in part:

> "3. That the Administration report on how the City will ensure value for money in the City's use on consultants on a go-forward basis."

During Budget Deliberations on November 30, 2016, City Council received a report from the CFO/General Manager, Asset and Financial Management Department, regarding external contracted services. The report provided information regarding how the Administration determines when to utilize consulting services, the decision factors that are considered and the benefits the City receives.

Report
<u>Factors in Determining Sufficiency of Existing Resources</u>
After City Council approves the annual budget, the Administration undertakes an analysis to determine how to deliver and implement approved projects or initiatives. This analysis is based on achieving the best value for the citizens of Saskatoon both in terms of cost and quality of the output.

The Administration considers a number of factors when determining the delivery method including:

- capacity of existing staff to perform the work;
- expertise of existing staff to perform the work;
- requirement of specialized services;
- expected timeline of delivery;
- frequency for the need of the required expertise;
- requirement of an independent opinion;
- objectivity of an opinion;
- transfer of risk;
- cost of expected scope of work;
- regulated or legislated requirements of the work; and
- availability of technology in-house and long-term requirements.

Where the Administration cannot perform all or part of the required work internally based on the factors listed above, an alternative delivery method is required. Attachment 1 provides further detail on the factors taken into consideration.

In analyzing all of these factors, the Administration determines if the work can be done with existing resources or if specialized services or additional resources are required to complete the project without disrupting the expected current service levels approved by City Council through the annual budget process, should existing resources be reallocated.

Due Date for Follow-up and/or Project Completion
Due date for follow-up and/or project completion is not required.

Public and/or Stakeholder Involvement
Public and/or Stakeholder Involvement is not required.

Public Notice
Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachment
1. Factors in Determining External Contracted Services

Report Approval
Written by: Clae Hack, Director of Finance
Approved by: Kerry Tarasoff, CFO/General Manager, Asset & Financial Management Department

Factors Determining External Contracted Services.docx

Factors in Determining External Contracted Services

The following factors are considered when determining alternative delivery methods:

Capacity of Existing Staff to Perform the Work
Where there is no capacity in-house to perform the required work, using external resources or overtime are two available options in order to complete the task without reallocating staff that could jeopardize the delivery of current approved and expected service levels. The Administration currently staffs its operations based on a standard level of service and does not staff-up for peak operational needs. To meet peak demands, hiring short-term staff, overtime or other external resources are a more effective and efficient way to meet these needs.

Expertise of Existing Staff to Perform the Work/Requirement of Specialized Services
Where existing staff do not have the expertise and the expertise is not required on a frequent basis, the options are to seek this expertise externally or hire the expertise. If the Administration had to hire, assuming the City could attract the required specialized expertise, premium salaries for the position may have to be paid. When the resource is not needed, the staff person would be under-utilized and become more of a generalist, and over time would begin losing the specialized skill by not using it and keeping up with the professional standards.

In most cases, specialized expertise comes with a higher salary expectation. Using short-term contracts for this type of work provides better value by paying for the specialized service only for the time it is needed. It is also expertise that comes with up-to-date professional training and experience.

Expected Timeline of Delivery
Similar to capacity of existing resources, the expected timeline for delivery of the project or initiative poses a resourcing issue. If a concentrated effort is required to complete a project, the options are to hire a number of people with the required skillset or contract the work to a company or firm that has the expertise available for the required timeframe.

In some cases where the project is over a number of years, the Administration would certainly consider hiring staff to perform the work. If the timeframe is shorter, it is not the Administration’s practise to hire full-time staff for a short period and release them, especially those with a specialized skillset.

Frequency for the Need of the Required Expertise
Where the expertise is required regularly, the Administration would hire the resources. However, where the expertise is only used periodically, the Administration would not do so, due to the same reasons as indicated under expertise of existing staff. When the resource is not needed, the staff person would be underutilized, become more of a generalist, and over time would begin losing the specialized skill by not using it and keeping up with the professional standards.

In most cases specialized expertise comes with a higher salary expectation. Using short-term contracts for this type of work provides better value by paying for the specialized service only for the time it is needed. It is also expertise that comes with up-to-date professional training and experience.

Requirement of an Independent Opinion/Objectivity of an Opinion
There are certain situations when an independent opinion is required to provide confirmation of the Administration's and/or City Council direction, or to provide independent advice on a subject matter.

A good example is the use of an external resource to develop the Growth Plan to a Half Million (Growing Forward). While this work may have been able to be done internally, it provided an objective plan using the input of civic staff, the general public and industry experts. It also provided a process and methodology to complete the work in a timely manner. Another example is the internal audit contract with PricewaterhouseCoopers which provides an independent analysis of work undertaken by the Administration, giving both City Council and citizens confirmation of the expected outcomes.

Transfer of Risk
At times the Administration and/or City Council requires another opinion or specialized advice for which the risk can be transferred from the City to a third party. Such is the case in Public Private Partnership (P3) projects where transferring the risk for budget over-runs and schedule delays are transferred to the proponent.

Cost of Expected Scope of Work
Consideration will be given to perform work externally should the cost of work be less than what could be delivered by existing resources. On the opposite extreme, should the cost of the work be less if delivered internally than by an external resource, consideration would be given to having the work done internally, depending on the capacity and expertise to complete the work.

Regulated or Legislated Requirements of the Work
There are certain circumstances when legislation or regulations require a third-party review for purposes of transparency and accountability. An example is having an annual external audit of the City's financial statements. As required in all incorporated organizations, an independent review of the organization's finances is a legislated requirement.

Available Technology In-House and Long-Term Requirements
There are occasions when specialized technology is available by the industry which can also provide a service to the Corporation without the need of having to outright purchase, maintain and upgrade the technology. It is a more cost-effective method to pay for a service when required, rather than investing in the technology if only required periodically.

Contract Award Report – January 1 to April 30, 2017
Contracts between $50,000 and $75,000

Recommendation
That the information be received.

Topic and Purpose
The purpose of this report is to provide the Standing Policy Committee on Finance with information regarding competitive and sole source contracts between $50,000 and $75,000 from January 1 to April 30, 2017.

Report Highlights
1. Competitive contracts totaled just over $910,000, and sole source contracts totaled just over $491,000.

Strategic Goal
This report supports the Strategic Goal of Asset and Financial Sustainability through the open, accountable, and transparent disclosure of the award of contracts.

Report
In accordance with Council Policy No. C02-030, Purchase of Goods, Services and Work, the Administration is required to report three times per year on the award of contracts and requests for proposals between $50,000 and $75,000. Attachment 1 is a detailed list of the competitive contract awards, and Attachment 2 is a detailed list of the sole source contract awards, both for the period January 1, 2017 to April 30, 2017.

Other Considerations/Implications
There are no policy, financial, environmental, privacy, or CPTED implications or considerations.

Due Date for Follow-up and/or Project Completion
The next contract award report will be tabled in October 2017, outlining the award of contracts and requests for proposals for the period May 1, 2017 to August 31, 2017.

Public Notice
Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments
1. Competitive Contracts – January 1, 2017 to April 30, 2017
2. Sole Source Contracts – January1, 2017 to April 30, 2017

Report Approval

Written by:	Linda Leedahl, Acting Director of Materials Management
Approved by:	Kerry Tarasoff, CFO/General Manager, Asset & Financial Management Department

Contract Award Report Jan to April 2017.docx

ATTACHMENT 1

Competitive Contracts Between $50,000 - $75,000
for the Period January 1, 2017 to April 30, 2017

Date	Project Title	Department	Contractor/Supplier	Contract Amt
17/04/11	Landscape Services for Saskatoon Light & Power	Transportation & Utilities	KNE Property Services	$ 50,200.00
17/04/28	2017 Street & Sidewalk Sweeping (Saskatoon Land - Evergreen, Aspen Ridge and Kensington)	Asset & Financial Mgmt.	Superior City Services Ltd.	$ 50,610.00
17/01/03	Fixtures - Cobrahead, Mongoose, Washington & Post Top	Transportation & Utilities	Eecol Electric (Sask) Inc.	$ 53,582.10
17/03/16	Diffuser Membrane Replacements used for Aeration Process at Wastewater Treatment Plant	Transportation & Utilities	EDA Environmental Ltd.	$ 53,768.00
17/04/27	2017, 2018 and 2019 Site Reconnaissance & Slope Readings along East River Bank	Transportation & Utilities	Golder Associates	$ 55,460.00
17/02/22	Traffic Cones	Transportation & Utilities	Airmaster Sales Ltd.	$ 56,045.00
17/01/20	VMWare Software Support Renewal	Saskatoon Police Service	Horizon Computer Solutions Inc.	$ 56,484.91
17/03/02	Brocade Power Supply & Cables	Saskatoon Police Service	Horizon Computer Solutions Inc.	$ 59,301.00
17/01/13	Stonebridge Library Custodial Services (One Year)	Asset & Financial Mgmt.	Semhar Cleaning Ltd.	$ 60,000.00
17/03/13	Sodium Hypochlorite - Chemical for Water and Wastewater Treatment Plants	Transportation & Utilities	Cleartech	$ 65,700.00
17/01/25	Recycled Asphalt Mix Types	Transportation & Utilities	Tetra Tech EBA Inc.	$ 66,362.10
17/01/18	Power Cables	Transportation & Utilities	Polycomtec Inc.	$ 68,260.50
17/03/10	Miscellaneous Electrical Small Parts Blanket Order	Transportation & Utilities	Anixter Power Solutions	$ 69,750.00
17/03/16	6,100 LB GVWR Crew Cab Short Box 4 x 4 Trucks	Asset & Financial Mgmt.	Jubilee Ford Sales (1983) Ltd.	$ 69,960.20
17/01/27	Public Education Rolling Education Unit	Corporate Performance	Saskatchewan Waste Reduction Council	$ 74,900.00
Total				**$ 910,383.81**

Sole Source Contracts Between $50,000 - $75,000
for the Period January 1, 2017 to April 30, 2017

Date	Project Title	Department	Contractor/Supplier	Contract Amt
17/02/16	Sand Separator	Transportation & Utilities	John Brooks Company Ltd.	$ 61,022.50
Policy Section 4.3(a) Proprietary rights. Catterall & Wright were retained to review and report on sand separator performance at the Water Treatment Plant. Catterall & Wright recommended that one of the existing worn separators be replaced with a Lakos brand unit available from John Brooks Company. The recommended separator required the least amount of piping adjustments when compared to other manufacturer's units. More units may be purchased if this sand separator proves effective.				
17/04/25	MG-Krete Concrete Repair Mortar	Transportation & Utilities	Lajcon Concrete Distributors	$ 66,606.66
Policy Section 4.3(a) Proprietary rights (sole authorized distributor). Other products have been tested and MG-Krete has been found to be the only product that is able to stand up to Saskatchewan weather conditions over time. Lajcon Concrete Distributors is the sole authorized distributor of this product in Saskatchewan.				
17/03/31	Dispatch Console	Saskatoon Fire Department	Motorola Solutions Canada Inc.	$ 68,529.18
Policy Section 4.3(a) Proprietary rights (sole authorized distributor) and 4.3(b) Standardization/compatibility. This equipment is compatible with the corporate trunked radio system in place until at least June 2019.				
17/01/19	Yellow Fish Road Program	Transportation & Utilities	Meewasin Valley Authority	$ 72,000.00
Policy Section 4.3(a) Proprietary rights (sole authorized distributor). Meewasin Valley Authority is the only organization in Saskatoon which is a partner in Trout Unlimited Canada's Yellow Fish Road™ program.				
17/01/24	Bike Lane Air Sweeper	Asset & Financial Mgmt.	Tennant Company	$ 73,682.40
Policy Section 4.3(e) For the supply of equipment for trial use and for used equipment. A used bike lane sweeper has been leased for a one-year period to ensure it meets the needs of bike lane maintenance.				
17/02/10	Steelcase Furnishings Blanket Order for One Year	Asset & Financial Mgmt.	Business Furnishings (Sask) Ltd.	$ 75,000.00
Policy Section 4.3(a) Proprietary rights (sole authorized distributor) and 4.3(b) Standardization/compatibility. This brand of furniture is needed for compatibility with existing furniture.				
17/03/14	City Hall Data Centre Rewiring	Asset & Financial Mgmt.	Aim Electric Ltd.	$ 75,000.00
Policy Section 4.3(c) Extension of work with a contractor already on an existing project site. Aim Electric was awarded work via a competitive tender process adjacent to this work site. It was more economical and efficient to engage with the contractor already working on site.				
Total				**$ 491,840.74**

Internal Audit Budget Information Update – April 2017

Recommendation
That the information be received.

Topic and Purpose
This report provides an update on the internal audit and consulting services provided by PricewaterhouseCoopers (PwC) to date.

Report Highlights
1. Expenditures are within budget parameters.

Strategic Goal
Efficient and effective performance of internal audits supports the long-term strategy of being more efficient in the way the City of Saskatoon (City) does business under the Strategic Goal of Continuous Improvement.

Background
Internal audit services are funded through the Internal Audit Program Reserve which had an opening balance of $442,533 for 2017.

This is the third year of the five-year contract with PwC.

Report
There are currently five internal audit projects being conducted by PwC. Planning activities have recently begun for the Business Continuity, CO2 Reduction Initiatives and Human Resource Management audits. Audit fieldwork is well underway regarding the Revenue Generation audit, and the Operating & Life Cycle Costs audit is now complete. As of April 30, 2017, 15% of the total budgeted internal audit hours for the year have been completed.

PwC has also completed the additional consulting project that was carried over from 2016 regarding Saskatoon Land.

Attachment 1 provides detailed information regarding each project. The Statement of Work describing the scope and approach for each audit/project can be found on the Corporate Risk webpage on the City's website.

Due Date for Follow-up and/or Project Completion
A budget information update report will be submitted monthly to the Standing Policy Committee on Finance.

Public Notice
Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachment

1. Internal Audit Budget Status Report

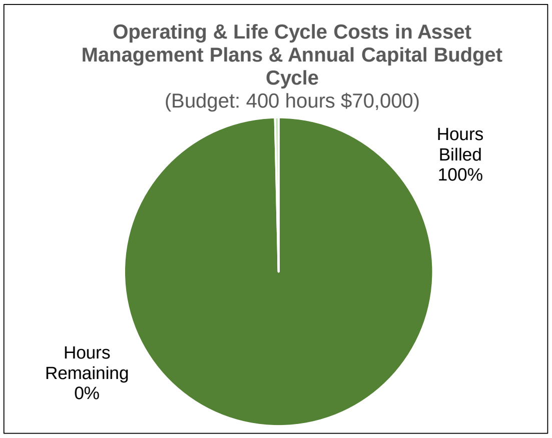
Report Approval

Written by:	Nicole Garman, Director of Corporate Risk
Approved by:	Kerry Tarasoff, CFO/General Manager, Asset & Financial Management Department

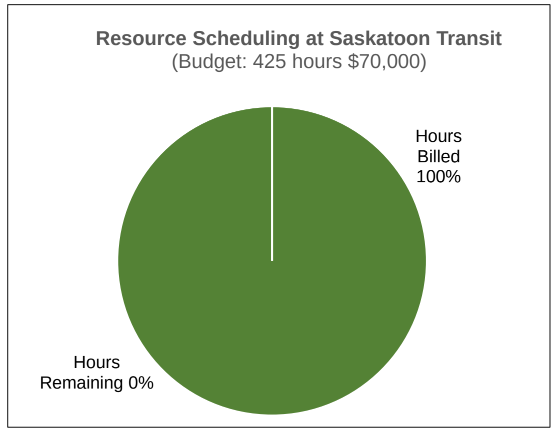
Internal Audit Budget_Apr2017.docx

Internal Audit Budget Status Report

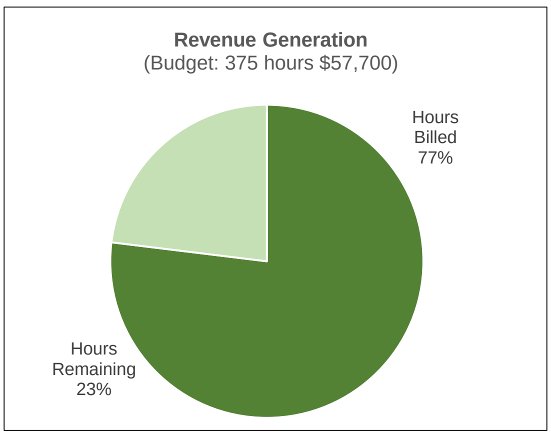
Internal Audit Projects



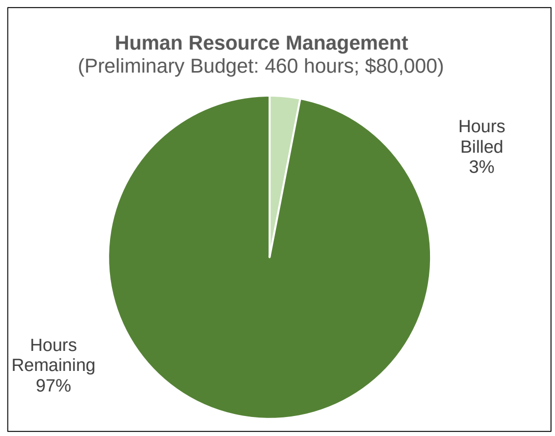
Notes: Statement of Work approved August 15, 2016. Audit report will be presented to Committee on May 29, 2017.



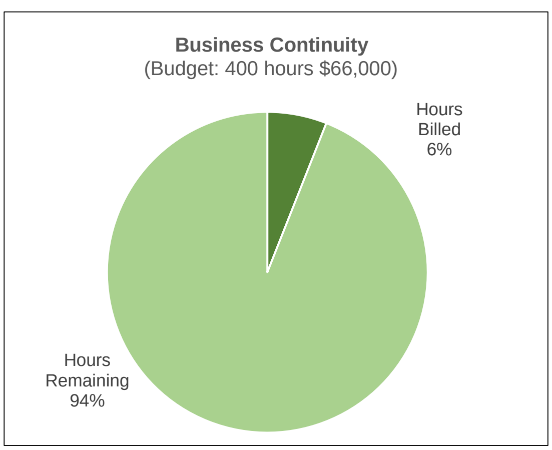
Notes: Statement of Work approved July 18, 2016. Audit report presented to Committee May 1, 2017. Administration agreed with all 13 findings.



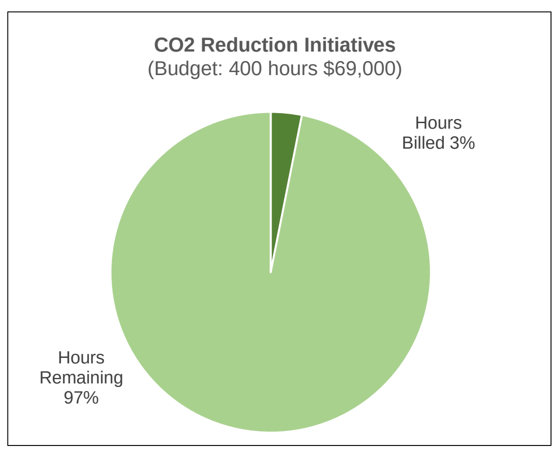
Notes: Statement of Work approved November 7, 2016. Audit fieldwork continues. Anticipated reporting to Committee summer 2017.



Notes: Initial meetings with the corporate stakeholder group have been conducted. A Statement of Work is anticipated to be presented to Committee in summer 2017.

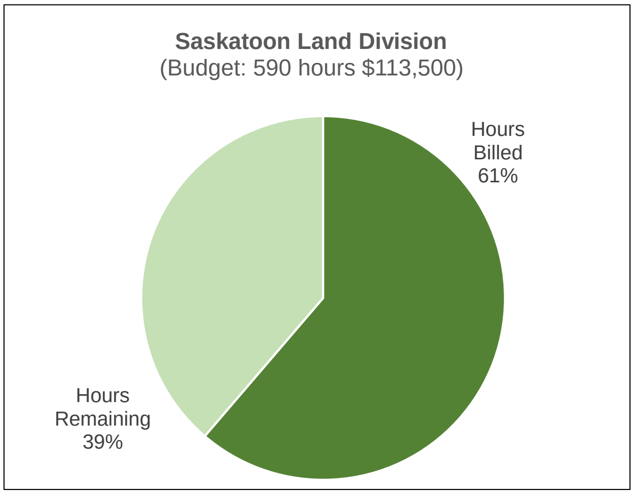


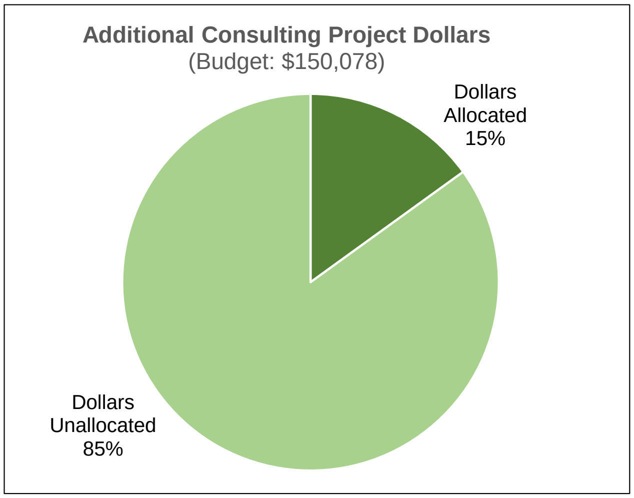
Notes: Initial meetings with management are being conducted. Statement of Work is anticipated to be presented to Committee in summer 2017.



Notes: Initial meetings with management are being conducted. Statement of Work is anticipated to be presented to Committee in summer 2017.

Additional Consulting Projects

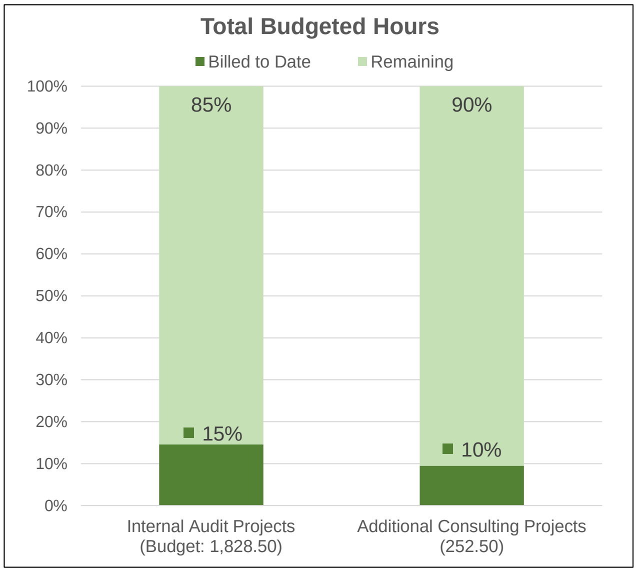


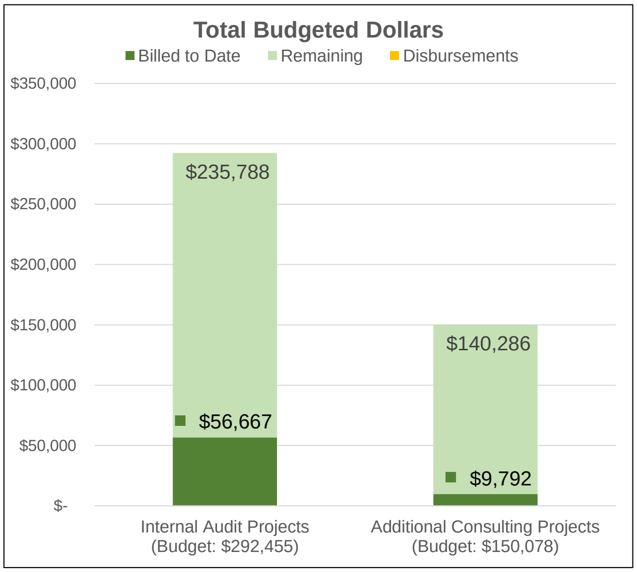


Notes: Statement of Work approved August 15, 2016. Audit fieldwork is complete and the audit report will be presented to Committee on May 29, 2017.

Notes: 15% of additional consulting project dollars have been allocated to specific consulting projects to date.

Overall Internal Audit Program





Notes: A total of 266.0 hours of internal audit work and 24.0 hours of additional consulting work have been billed to April 30, 2017.

Notes: A total of $66,459.40 has been billed to April 30, 2017 for internal audit services, consulting services and disbursements. This represents 15% of the total available funding for 2017.

Saskatoon Land
Internal Audit Report

For presentation to Standing Policy Committee on Finance

May 23, 2017

Table of Contents and Disclaimer

Background and Scope

Background

The City of Saskatoon's City Council formalised its involvement in the land development business in 1954 by actively acquiring land for future development. Since that time, the City of Saskatoon (or the "City") has played an active role in developing Saskatoon communities. Among the core mandates of Saskatoon Land, with particular relevance to this internal audit project, are the following:

- Provide an adequate supply of residential, institutional and industrial land at competitive market values;
- Ensure timely and financially responsible acquisitions of all land requirements for various capital projects;
- Ensure sufficient long-term supply of future development lands;
- Provide returns at competitive rates of return on investment to allocate to civic projects/programs; and
- Operate on a level playing field with other land development interests in the City.

Internal Audit was requested to perform certain procedures related to Saskatoon Land, primarily for the period from January 1, 2015 to July 31, 2016. This project has been carried out subject to the Internal Audit Services Agreement dated January 1, 2015 between the City of Saskatoon and PricewaterhouseCoopers LLP.

Scope and Criteria

The scope of the Internal Audit (IA) engagement, as defined by the SPC on Finance, consisted of the following:

- To assess whether Saskatoon Land is adhering to policy concerning administration of lot draws, returned lots, maintenance of an Eligible Builder's List, and builder's adherence to time frames surrounding lot purchases and construction (i.e. 3-year build requirement).
- To analyse current conflict of interest guidelines for Saskatoon Land to assess whether adequate safeguards exist for Saskatoon Land employees to avoid and/or declare any real or perceived conflict of interest relating to builders and trades who work with Saskatoon Land.
- To analyse residential lot prices and Saskatoon Land's residential lot pricing process in an effort to assess whether Saskatoon Land is competitive and responding to the market or is influencing market conditions.
- To analyse Saskatoon Land's policies and procedures to assess whether they are equitable and whether Saskatoon Land has the proper degree of discretion in the administration of sales, returns and fees.
- To analyse the Privacy and Access to Information Policy that Saskatoon Land utilises to assess whether information that should be made public, as appropriate for a municipality, is being made public, for the sake of transparency for residents of Saskatoon.
- To analyse the current business and governance structure of Saskatoon Land to comment on the appropriateness of the current structure in place and to identify potential alternative business and/or governance structures that might add value to the City's land development efforts and assist in managing risk exposure.
- To conduct a risk assessment of the operations of Saskatoon Land to assess whether investments are timely, adequate and do not overexpose Saskatoon Land to unnecessary investment risk.

Executive Summary

The procedures performed for purposes of the Saskatoon Land Internal Audit Project were varied in nature and addressed a variety of elements of the operations of Saskatoon Land. The scope contained a range of inward-looking procedures dealing with compliance with policies and conflict of interest to more outward-looking procedures dealing with assessing the impact of Saskatoon Land's lot pricing on the broader Saskatoon market, comparing policies and financial reporting practices and business/governance structures in place against those in other municipalities, and conducting a risk assessment of the operations of Saskatoon Land. It bears noting that the scope of the project did not contemplate a fundamental examination of whether the City of Saskatoon should be in the land development and sale business or an examination of one of its core purposes with respect to residential lot sales, being "to assist in fostering competition and diversity in the home building industry in Saskatoon by ensuring fair and equitable allocation of City-owned lots to contractors".

Within each procedure IA identified recommendations and/or next steps for consideration for Saskatoon Land, the City of Saskatoon, and the SPC on Finance (for ease of reference recommendations are denoted in green font throughout the document):

- Procedure 1: Adherence to Policies – IA analysed compliance with four primary areas of policy contained within three City Council policies relating to Saskatoon Land, as well as areas of Saskatoon Land's internal processes designed to facilitate compliance with the City Council policies. Within those four primary areas of policy, including Saskatoon Land's internal processes, there were 19 specific sections examined and 22 specific tests used to examine those sections. As a result of conducting the 22 unique types of tests, here were 16 types of exceptions noted with compliance during the period from January 1, 2015 to July 31, 2016. Of these, there are items for which management appears to have knowingly made exceptions to policy to deal with particular circumstances (10 instances noted), and there are others for which the non-compliance appears to be the result of unintentional error (6 instances noted). As a result, twelve recommendations were made to both improve Saskatoon Land compliance in certain areas and to address certain items in policy with the SPC on Finance to ensure that policies are applied consistently going forward and that the SPC on Finance is comfortable with the discretion being exercised in the administration of the policies. On an overall basis, policies and procedures exist that are consistent with the overarching City of Saskatoon Council Policies that govern Saskatoon Land; however, there is room for improvement in the adherence to those policies and procedures and in defining the degree of acceptable discretion required to administer those policies and procedures.

- Procedure 2: Conflict of Interest – IA conducted interviews with individuals who have worked at Saskatoon Land between the dates of January 1, 2015 and July 31, 2016. Although no previously unresolved concerns with conflict of interest arose, IA has made two recommendations to increase awareness at Saskatoon Land with respect to conflict of interest and for which there are existing good practices in place at other municipalities.

- Procedure 3: Residential Lot Prices/Lot Pricing Process – IA analysed the residential lot pricing process in place at Saskatoon Land and the resulting residential lot prices through several lenses. IA notes that the significant presence of Saskatoon Land in the residential real estate market has an inherent influence on the prices in said market (i.e., as the owner of the largest market share it is inherently difficult to react to a market as opposed to leading that market). However, as a result of our analysis we observed no indicators that the residential lot prices of Saskatoon Land were inconsistent with other residential price trends within the City and furthermore, that all else being equal, the performance and trends of the Saskatoon residential market were similar to the performance and trends of the residential markets in other comparable municipalities (i.e. no discernible direct impact due to the presence of Saskatoon Land).. Arguably the most meaningful method of analysis to determine whether Saskatoon Land negatively impacts the market is not possible - to compare a Saskatoon market with Saskatoon Land present to the same market in the absence of Saskatoon Land.

- Procedure 4: Assessment of Policies – IA analysed the extent to which policies in place at Saskatoon Land are equitable and the degree of discretion currently being exercised by Saskatoon Land in the administration of those policies. Overall, IA found that the policies and procedures in place are equitable in light of the overarching City of Saskatoon Council Policies that govern Saskatoon Land; however, three recommendations were made in both Procedures 1 and 4 with respect to areas where Saskatoon Land and the SPC on Finance should review to ensure equitability across the contractor base and/or eliminate or more clearly define appropriate discretion.

- Procedure 5: Privacy, Access to Information and Financial Reporting – IA analysed the extent to which Saskatoon Land and the City of Saskatoon are responding to Access to Information requests and achieving transparency in financial reporting. IA found that Saskatoon Land and the City of Saskatoon are responding to all Freedom of Information requests relating to Saskatoon Land. However, the level of transparency in the Saskatoon Land and City of Saskatoon financial reporting, while in compliance with the baseline requirements of accounting and financial reporting standards applicable to the City of Saskatoon, there is currently a low degree of transparency in financial and operational reporting. As a result, IA has made four recommendations.

- Procedure 6: Business and Governance Structure – IA analysed the business and governance structure in place at Saskatoon Land and considered it in light of the results of Procedures 1 through 5 and in light of available alternatives. The reporting focuses on the alternative of a municipal development corporation and examples of existing municipal development corporations in Western Canada. We have recommended that Saskatoon Land, the City of Saskatoon, and the SPC on Finance further contemplate this alternative. While the majority, if not all, of the recommendations in this report could be achieved in part or in full in the absence of a municipal land corporation, the creation of a municipal land corporation to house Saskatoon Land would assist with practically and meaningfully implementing several of the recommendations made in this report. It would create an increased level of independence from the City of Saskatoon and would require increased financial transparency and a separate governing Board with relevant expertise in place, which is currently not being achieved by having the SPC on Finance as the overseer of Saskatoon Land. Establishing a municipal development corporation is a significant undertaking and the cost and effort involved would need to be carefully weighed against the benefits, particularly in light of broader economic challenges the City is facing and governance models being studied in 2017.

- Procedure 7: Investment Risk – a report on this procedure has been provided under separate cover. In this report, IA notes that Saskatoon Land's approach to risk management is consistent with other municipal land development agencies and general industry best practices and that Saskatoon Land's returns are generally consistent with other entities, including private sector land developers. IA also noted that while Saskatoon Land implements risk management protocols that are generally consistent with industry best practices, it could implement additional protocols to further manage risk.

To form an overall conclusion based on the seven primary procedures would be an oversimplification based on the variety of areas analysed. Rather the focus is on the conclusion and/or recommendations in each of the seven distinct areas and the next steps based on the responses to IA's recommendations.

Procedure 1: Adherence to Policies

Explanation of Procedure

This procedure was designed to assess whether Saskatoon Land is adhering to policy concerning:

a) Administration of lot draws;
b) Returned lots (resale in a fair and transparent manner and consistency of fees and penalties applied);
c) Proper maintenance of the Eligible Builder's List including eligibility for lot draws, placement in tiers, and the process for removing and reinstating builders from and to the Eligible Builder's List, including probation periods; and
d) Builder's adherence to time frames surrounding lot purchases and construction (i.e., 3-year build requirement).

Unless noted otherwise, the timeframe of examination for the procedures was January 1, 2015 to July 31, 2016. References to "builder" and "contractor" are used interchangeably. References to Reflex refer to the Reflex Land Development ERP system, which is a software package utilised by Saskatoon Land and is customised to the core requirements and business processes of land development. References to Posse refer to the Computronix Posse Land Management System, a browser based solution which automates workflow associated with building, planning, engineering, permitting, inspections, code enforcement, and other land management activities.

Within the documentation of findings related to Procedure 1, IA has denoted instances in which management appears to have knowingly made an exception to policy to deal with a particular circumstance as (KE) and instances in which the non-compliance appears to be the result of unintentional errors as (UE).

a) Administration of Lot Draws

i) City of Saskatoon Council Policies C09-033 and C09-006

In City of Saskatoon Council Policy C09-033 ("Sale of Serviced City-Owned Lands", Section 3.1 a) i) states that for residential lots, newly created lots can be sold to individuals and contractors through a public lot draw process in conformance with City of Saskatoon Council Policy C09-006 ("Residential Lot Sales – General Policy").

The purpose of City of Saskatoon Council Policy C09-006 is "to allow the City to be competitive in marketing City-owned residential lots". The policy states in Section 3 that "newly-created lots will, subject to the terms and conditions outlined C09-006, be sold to individuals and contractors through a public lot draw process." Saskatoon Land has a documented internal procedure in place to facilitate adherence to the lot draw process in C09-006, which includes details on segmentation of builders, incorporation of individuals into the process, scheduling of the lot draw and lot draw appointments.

There were two lot draws which occurred during the January 1, 2015 to July 31, 2016 period – Parkridge and Aspen Ridge. These lot draws were administered under different processes as the Aspen Ridge lot draw incorporated, for the first time, the segmentation of builders into Category 1 and Category 2 for purposes of the lot draw process.

- Policy C09-006 Section 3 requires that the draw be advertised twice in the local newspaper prior to the lot-draw taking place. The process for advertising the lot draws is that once Saskatoon Land determines when the lot draw is taking place, the information is provided to the Marketing department at City Hall for posting in the newspaper.
  - IA inspected communications from Saskatoon Land to Marketing and verified that proper procedure was being followed and that direction was provided to Marketing to advertise the lot draws in the Saskatoon Star Phoenix.
- Policy C09-006 Section 3.2 states that “The City will determine the number of lots which will be drawn for by both individuals and contractors”, and furthermore in 3.2 a) that “Individuals are entitled to purchase only one City-owned residential lot every three years” and in 3.2 c) that “Lots sold during the public lot-draw process are to be allocated on the ratio of 90% for Eligible Contractors and 10% for Individuals”. Note that Procedure 1c) will go into further detail regarding “Eligible Contractors”.
  - IA inspected the detailed listings of individuals purchasing lots through the Parkridge and Aspen Ridge lot draws. We noted no instances of individuals purchasing lots in both lot draws. IA inspected the overall detailed listing of purchasers for the Parkridge and Aspen Ridge lot draws and noted that the amount allocated to individuals is based on the 10% ratio outlined in policy C09-006. As many individuals that submit an application and meet any other criteria for eligibility will be allowed to participate, and are scheduled into the lot draw once every 10 draws.
- Policy C09-006 Section 3.4 states that “a minimum down payment of 13% of the purchase price together with all applicable taxes is required at the time of purchase”, that “the prime rate of interest, as set by the City Treasurer on the date of sale (i.e., the date that the receipt is issued), will be charged on the unpaid balance of the purchase price”, and that “the unpaid balance of the purchase price is due and payable in eight months from the date of purchase…if the outstanding balance is not paid in full at this predetermined date, the rate of interest will increase by another five percentage points and will be applied to the unpaid balance”.
  - IA inspected a sample of 25 purchases made during the lot draw process and outside of the lot draw process, as Section 3.4 is equally applicable in both cases. IA noted that an internal procedure exists within Saskatoon Land allowing for written extensions to be filed within the first 8 months, allowing for an additional 4 months to pay the outstanding balance. In this case, if there continues to be a lack of payment after 12 months, in order to receive an additional 4 months past the extended deadline (equating to 16 months since purchase), the purchaser is required to pay 5% of the total owing or all outstanding interest (whichever is higher) or face suspension. IA notes that these extensions are a long standing operating procedure of Saskatoon Land.
    - (UE) For the sample of 25 purchases inspected, there were three instances where the interest charged on the outstanding balance did not appear to be in accordance with C09-006. IA understands from Saskatoon Land that two cases were caused by system errors while the third instance was human error..
    - (KE) IA also noted two instances where there were discrepancies related to signed sales agreements and the required 13% of the total purchase price being paid up-front. Saskatoon Land has indicated to IA that they commonly accommodate builders who are unable to attend the lot selection appointment to call or email their selections, and that approximately half of their customers take advantage of this option and attend the office at a future date to execute the Agreement for Sale.

- For lot sales in Kensington, Saskatoon Land indicated that a number of lots were not yet ready for possession at the time of sale, either due to utilities not being ready or lots not being fully serviced. Therefore, while certain lots may have been sold, possession was not transferred until a later date and at this point interest began to be charged.

- For one specific contractor, our sample included two purchases made by the contractor in April 2015 and November 2015. In both instances, there were delays between the time of initial purchase and the time of both signing of the sales agreement and payment of the required 13% of the purchase price. There was numerous correspondence between Saskatoon Land and the contractor, indicating that if there was not timely resolution, the contractor may be disqualified from the Aspen Ridge lot draw in November 2015 and may face a year's suspension from the Eligible Builder's list. During this time the contractor in question participated in the Aspen Ridge lot draw and purchased lots over-the-counter. While Saskatoon Land indicated in its correspondence that ramifications for non-payment could include disqualification from lot draws and disqualifications from the Eligible Builder's list, these options were not pursued. Furthermore, this particular contractor had outstanding accounts at the time of participation in the lot draws and therefore should have been disqualified under policy regardless. See Procedure 1)c)i) for further details.

  - **RECOMMENDATION #1 -** IA recommends that Saskatoon Land, following its responsibilities in Section 4.1 of C09-006 to "recommend changes to this policy, when required, to City Council through the Standing Policy Committee on Finance", propose further definition to Section 3.4 to avoid the need for discretion to be exercised by formally contemplating such circumstances and the proper action(s) to be taken regarding interest when they arise. This would include the matter of when to begin charging interest and also the extension to 16 months.

  - **RECOMMENDATION #2 -** IA recommends that Saskatoon Land increase its diligence in ensuring that Council Policy C09-006 is adhered to regarding requirement to pay the minimum down-payment of 13% of the purchase price, together with all applicable taxes, at the time of purchase.

ii) Saskatoon Land Internal Procedure – Lot Draw Process

As noted in a) i) immediately above, Saskatoon Land has a documented internal procedure in place to facilitate adherence to the lot draw process outlined in City of Saskatoon Council Policy C09-006, which includes further details necessary to administer the lot draw including segmentation of builders, incorporation of individuals into the process, scheduling of the lot draw and lot draw appointments. Also as noted above in a) i), there were two lot draws which occurred during the January 1, 2015 to July 31, 2016 period – Parkridge and Aspen Ridge. These lot draws were administered under different internal processes at Saskatoon Land as the Aspen Ridge lot draw incorporated, for the first time, the segmentation of builders into Category 1 and Category 2 for purposes of the lot draw process.

Under the new process, first utilised for Aspen Ridge, large builders are defined as Category 1 if they have purchased more than an average of six lots per year over the last 5 years. As such, they are removed from the regular lot draw and required to select their preferred lots from a group of lots predetermined by Saskatoon Land. The number of predetermined lots for Category 1 builders in any given phase will be based on the percentage of total single-family lots that were purchased by Category 1 builders over the last 5 years.

As a result of the two lot draws in-scope for the internal audit project following different internal processes, IA performed separate testing on the lot draws to assess the process in place at the time of administering the lot draw was adhered to.

- For the Aspen Ridge lot draw only, our testing of the administration of the lot draw in accordance with Saskatoon Land's internal procedure for the lot draw process included the following:
  - (KE) IA examined the inclusion of builders as Category 1 based on purchasing more than an average of 6 lots per year over the last 5 years. We noted that builders with an average of at least 6 lots per year over the last 5 years were included as Category 1 builders. However, IA also noted that one builder with an average of only 5.8 lots per year (29 lots over a 5-year period instead of 30), was included in Category 1. For this builder, Saskatoon Land included them in Category 1 as the value of the lots they had purchased, on both a gross value and a weighted average basis, was higher than the Category 1 builder which had 30 lots over the 5-year period.
  - IA examined whether the lots selected were in accordance with the builder order determined by the weighted average builder ranking (no discrepancies noted) and that the number of predetermined lots for Category 1 builders is based on the percentage of total single-family lots that were purchased by Category 1 builders over the last five years. IA noted that the amount of lots to be allocated to Category 1 builders should have been 60 and the actual amount allocated was 54. The discrepancy is due to the fact that not all Category 1 builders participated in the lot draw, and as such the allocation total of the participating Category 1 builders was 54. In this instance, the under-allocation was inconsequential as only 30 lots were sold to Category 1 builders in the lot draw; however, for future lot draws the calculation process should be refined and fully documented.
    - **RECOMMENDATION #3 -** IA recommends that the internal procedure be further refined to avoid the need for discretion in these instances going-forward, and also so that there be a clear and formal record of decisions that have been made in the past so that future application of the rule is consistent and there is not inconsistency from one lot draw to the next. In general, one of the challenges with having a highly regulated and defined process is that exceptions to the rule can arise, in which case discretion is required to be applied. In this case, although IA does not necessarily challenge the logic applied to include the builder which fell short by 1 lot, it is inconsistent with the new procedure as written.
- For both the Aspen Ridge and Parkridge lot draws, our testing of the administration of the lot draw in accordance with Saskatoon Land's internal procedure for the lot draw process included the following:
  - IA examined whether, for builders (Parkridge lot draw) and Category 2 builders (Aspen Ridge lot draw): the Eligible Contractors were placed in order as determined by the builder ranking; the lot draw allocation follows the logic of 10% individuals and 90% Eligible Contractors; in the first round no Eligible Contractor has selected more than one lot and in the second round that no Eligible Contractor has selected greater than 3 lots (or their maximum if lower); that no Eligible Contractors are purchasing lots in excess of their allocated maximum until all Eligible Contractors have reached their allocated maximum; and that once lots began to be purchased subsequent to all allocated maximums being reached, that any remaining lots were being purchased one at a time and following the originally determined ranking. We noted no discrepancies in the application of these elements of the lot draws.

– IA examined whether, for a sample of individual purchasers: an application form was submitted along with a certified cheque for $3,000; Saskatoon Land has performed the check that the individual has not purchased a lot within the last 3 years; and only one application per household is received. We noted no discrepancies in the application of these elements of the lot draws.

iii) Summary of Results from Procedure 1a)

With respect to our testing of compliance with policy in relation to administration of lot draws, we noted three instances where the interest charged on the outstanding balance did not appear to be in accordance with C09-006 due to the gap between the sales agreement date and the possession date (UE), and two instances where there were discrepancies related to signed sales agreements and the required 13% of the total purchase price being paid up-front (KE). We also had comments on the process for determining a Category 1 builder and the determination of lots to be allocated to Category 1 builders. From these findings and comments we have three recommendations for Saskatoon Land, noted in green in above sections.

b) Returned Lots – Resales and Fees Applied

In City of Saskatoon Council Policy C09-006, 3.7 ("Cancellations"), it states that "when a cancellation occurs before the lease-option agreement has been signed, the purchaser's down-payment and any taxes paid during the lease period will be fully refunded. When a cancellation occurs after the lease-option agreement has been signed, the purchaser will be charged rent at a rate of 1% per month of the selling price for the period during which he/she possessed the lot. The purchaser will receive a refund equal to the difference between the down-payment (including any taxes paid during the lease period) and the rent charged".

Saskatoon Land also has a process document "Return of Lot – Un-Sell" which guides employees as to how to process a cancellation in the Reflex system. This document is written to assist the individual in properly placing an administrative hold on the returned lot as there is a 1-month period of time required prior to re-releasing the lot for sale. This period is necessary to allow for Saskatoon Land to properly process the required quit claim deed, request from the property tax assessor group the amount of property taxes owed for the possession period, request the property coordinator to perform a site inspection to ensure that the lot is in a sellable condition, and process the payment requisition. Once all of this is performed and the refund cheque is available for the contractor, the hold can be removed from the lot and placed back into inventory, at which time the website is updated.

- IA inspected a sample of 30 cancellations made during the January 1, 2015 to July 31, 2016 period to assess adherence to the requirements of C09-006 3.7 with respect to fees applied.
  - For the sample of 30 cancellations, we noted the following:
    - (KE) In two instances, contractors were assigned a lot during a lot draw based on telephone conversations and emails and disputed the purchases subsequent to the lot draw. As a result of the lack of a signed sales agreement being in place with respect to the purchase of the lot, Saskatoon Land processed the lot as a returned lot and charged only the $500 processing fee, with no other fees or penalties applied. As a result, these lots that were eligible for purchase in the lot draw remained in inventory for months afterward (with one lot still being in inventory as of July 31, 2016).

- (KE) In two instances, contractors were delinquent in signing sales agreements with Saskatoon Land. In these instances, the contractors gained the benefit of having a lot allocated to them for a period of time without having signed a sales agreement, and then were not required to make the necessary penalty payment because of the lack of a signed sales agreement.

- (KE) In two instances, contractors were deemed to be in financial difficulty by Saskatoon Land as a result of concerns with the contractors' accounts receivable levels and therefore the contractors' potential inability to pay all outstanding accounts. Saskatoon Land initiated cancellation of sales agreements with those contractors and, due to the contractors' indicating an inability to return the lots based on the significant interest and penalties that would be required under policy, Saskatoon Land negotiated terms that would allow for the application of a significantly reduced financial penalty to each contractor while at the same time providing incentive for each contractor to sign a quit claim document. In advance of completing a quit claim, IA understands that Saskatoon Land seeks legal advice from the Office of the City Solicitor and that the necessary documents are handled through the City Solicitor. In the first case, the contractor's initial deposit was retained by Saskatoon Land; however, incremental fees and penalties were not charged. In the second case, the contractor's initial deposits (less processing fees, property taxes and interest), were returned to the contractor; however, incremental fees and penalties were not charged. For one of the contractors, an additional purchase was permitted to be made immediately prior to this occurrence, although as per Saskatoon Land this was permitted with the understanding that the other agreements had to be cancelled and a signed offer in place with the contractor's customer.

  > RECOMMENDATION #4 - IA recommends that the practice of allowing contractors to participate in lot draws based on telephone conversations and emails be discontinued, or alternatively that a more formal acknowledgement of the purchase be required from the contractor so that there is no room for dispute subsequent to the lot draw. Note that our review of other municipalities in Procedure 4 indicated that all other municipalities reviewed required purchasers to be physically present to register for and attend the lot draw, and some but not all allowed for an authorised representative to be physically present on the purchaser's behalf. Although the internal procedure at Saskatoon Land for lot draw appointments as currently written allows for builders to phone or email their selections, there is intended to be follow-up performed to confirm that the lot being processed is in fact their choice. In addition to the challenges posed by the instances noted above, it detracts from the lot draw process as a whole as lots are removed from availability that may have been purchased by another contractor. Obtaining signed sales agreements and deposits at the time of purchase, as required by policy, would rectify this issue, as well as address the other issue noted above regarding contractors not signing sales agreements. This echoes recommendations #1 and #2.

  > RECOMMENDATION #5 - IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.7 with respect to cancellations. Saskatoon Land's responsibility under C09-006 is to "Administer the sale of City-owned residential lots in accordance with the terms and conditions set out in this policy". The instances of the allowances made above to initiate cancellations and negotiate fees and penalties are not addressed in policy and require significant discretion. A formal policy should be in place either disallowing these types of negotiations entirely or providing clear guidelines and approval limits if Saskatoon Land and the SPC on Finance wish to continue allowing exceptions to C09-006 3.7.

- For the same sample of 30 cancellations above, IA analysed adherence to the Saskatoon Land internal procedure designed to facilitate Saskatoon Land's proper administration of the return of lots.
  - For the sample of 30 cancellations, we noted the following:
    - (KE) There is discretion applied as to whether or not a site inspection is required prior to subsequent resale of the lot (i.e., if there is a quick turnaround between when the lot was sold and returned or if possession had not yet been granted). For approximately half of the cancellations, there was no record of a site inspection performed.
    - (UE) There was one instance where a returned lot was placed on hold by an eligible contractor prior to the website being updated with details of the newly available lot. Although the refund cheque had been properly processed and signed for by the eligible contractor that returned the lot, a new hold was permitted to be placed on the returned lot before updating the website.
      - RECOMMENDATION #6 - IA recommends that the rationale for non-performance of a site inspection be clearly documented by the appropriate Saskatoon Land representative. We believe that the exercise of discretion in this area is appropriate and that the decision-making process and criteria need to be clearly reflected in the respective files.
      - RECOMMENDATION #7 - IA recommends that, prior to accepting any new hold or sale transactions on returned lots, Saskatoon Land staff ensure that the lot in question has been fully updated and posted on the website, at which point it is officially available for purchase by eligible contractors.

i) Summary of Results from Procedure 1b)

With respect to our testing of compliance with policy in relation to returned lots, we noted six instances across three unique situations where the fees and penalties applied on the returned lots was not in accordance with C09-006 (KE) and one instance where there was a discrepancy related to the timing of the returned lot being released from administrative hold for resale (UE). We also had comments on the lot draw process stemming from the findings in this area of examination. From these findings and comments we have 4 recommendations for Saskatoon Land, noted in green above.

c) Eligible Builder's List

In City of Saskatoon Council Policy C09-033 ("Sale of Serviced City-Owned Lands", Section 3.1 a) i) states that for residential lots, newly created lots can be sold to individuals and contractors through a public lot draw process in conformance with City of Saskatoon Council Policy C09-006 ("Residential Lot Sales – General Policy").

The purpose of City of Saskatoon Council Policy C09-006 is "to allow the City to be competitive in marketing City-owned residential lots". The policy states in Section 3 that "newly-created lots will, subject to the terms and conditions outlined in C09-006, be sold to individuals and contractors through a public lot-draw process" and that "any lots which are not sold at the completion of the draw will be sold on a first-come, first-served basis". The policy further clarified in 3.2(b) that "the number of lots to be sold to an individual contractor will be governed by City of Saskatoon Council Policy No. C09-001 "Residential Lot Sales – Contractor Allocations".

The purpose of City of Saskatoon Council Policy C09-001 is "to assist in fostering competition and diversity in the home building industry in Saskatoon by ensuring a fair and equitable allocation of City-owned lots to contractors". The definition of a contractor is "a homebuilder who constructs complete homes for the purpose of resale". C09-001 3.1 states that "The City will not sell lots to a contractor who does not meet the Eligibility Criteria and who does not provide sufficient information to satisfy the City that the criteria is met in spirit and in fact". C09-001 3.2 further states that "The City reserves the right to determine contractor eligibility and to sell lots to only those who are in good standing under the criteria, remove any contractor from its eligibility list at any time, and determine the number of lots it shall offer to any contractor at any time". Furthermore, C09-001 3.6 states that "Violations of this policy will result in the contractor being removed from the Eligibility List".

Within C09-001 3.3, the criteria for eligibility for lot allocations are stated and formed the basis of our examination of this area. For a sample of 10 purchases made in the Aspen Ridge and Parkridge lot draws, as well as for a sample of 15 purchases of single-family lots made outside of the lot draw process during the period from January 1, 2015 to July 31, 2016, we analysed whether the Eligible Contractors purchasing the lots met all stated criteria as follows:

- C09-001 3.3(a) Relationship to Other Contractors: "No allocation will be made to any contractor or company known to have officers or shareholders in common with any other contractor or company otherwise eligible, until both or all contractors or companies so involved have designated only one of the contractors or companies as being the one eligible for allocations". In order to administer this, when Saskatoon Land receives applications for new builders (which all include a requirement for a listing of corporate ownership), this information is validated against information publicly available from Information Services Corporation of Saskatchewan (ISC). Saskatoon Land compiles a listing of all companies and their ownership and a filter is completed to determine whether there is common ownership between any of the companies.

- C09-001 3.3(b) Business Tax/License: "The applicant must have paid a business tax or license fee for the purpose of operating a home building business in Saskatoon". In order to administer this, a copy of the business taxes and/or license fee that is required to be submitted with the application is stored in the individual contractor files maintained by Saskatoon Land.

- C09-001 3.3(d) Purchase Requirement: "Contractors must purchase one lot every two years in order to maintain eligible status".

- C09-001 3.3(e) Mandatory Training: "Completion of the seven modules under the Certified Professional Home Builder Program, offered to both members and non-members of the Saskatoon & Region Home Builders' Association (SRHBA), or a course(s) approved by the Director of Saskatoon Land". As of July 2016, this is a new requirement for eligibility. For members of the SRHBA, this requirement is met once there is confirmation from the SHRBA that the modules have been completed. For non-members, a certification of completion can be supplied to Saskatoon Land as proof of compliance with the requirement. This requirement will be phased in over a two-year period.

- C09-001 3.3(f) Safety Training: "Contractors must complete an approved safety training course approved by the Director of Saskatoon Land". As of July 2016, this is a new requirement for eligibility. This requirement is met by supplying a certificate of completion to Saskatoon Land as proof that the training has been completed. This requirement will be phased in over a two-year period.

- C09-001 3.7 Inventory: "Each Eligible Contractor is allowed to have a maximum of 40 lots purchased from the City in their current inventory. Inventory is defined as all lots that have not been completed to the backfill stage of construction".

- C09-001 3.8 Home Warranty: "Each Eligible Contractor is required to maintain membership in a City recognized Home Warranty program and to register and provide an individual home warranty certificate for a dwelling on each purchased lot".

- C09-001 3.10 Annual Eligible Contractor Application: "Eligible Contractors must file their annual application by February 28 in order to participate in Saskatoon Land activities for that year."

- C09-001 3.11 Insurance Coverage: "Each Eligible Contractor is required to have Workers Compensation and insurance coverage with a minimum of $2 million liability insurance coverage on each build."

  - (KE) IA noted one exception in its testing of the eligibility requirements detailed immediately above, which pertained solely to C09-001 3.10 Annual Eligible Contractor Application, which states that "Eligible Contractors must file their annual application by February 28 in order to participate in Saskatoon Land activities for that year". IA noted that one contractor had submitted the annual contractor form subsequent to the required deadline. Saskatoon Land indicated that when this contractor came off of probation a new application form was submitted that contained new contact information, which was not input into Saskatoon Land's database. As a result of its error, Saskatoon Land concluded that the contractor had not received the 2016 application forms nor any of the subsequent reminders, and Saskatoon Land therefore permitted the contractor to purchase 3 lots during the timeframe that it technically would have been ineligible, as Saskatoon Land considered itself responsible for the error that had been made.

i) C09-001 3.9 Outstanding Accounts

In addition to the criteria highlighted in the section immediately above, C09-001 3.9 states that "Eligible Contractors are required to ensure that their accounts are in good standing. Any outstanding accounts will suspend the company from purchasing further lots over-the-counter and exclude entry into the proceeding lot draw."

For the duration of the January 1, 2015 to July 31, 2016 period under audit, Saskatoon Land's process for determining outstanding accounts was to, at the end of each month, manually scan the listing of lots on the Reflex system and review the listing of payment due dates. As lots are identified that are approaching their due date, follow-up with individual contractors occurs in the form of letters indicating that the 16-month deadline is nearing and that, if surpassed, the outstanding account will result in suspension from participation in further purchases. The process for determining outstanding accounts was updated in August 2016 to rely on a suspension list that is being produced by the Reflex system to determine if contractors are eligible to purchase further lots. This represents an improvement from the manual process in place previously.

- For our testing of compliance with C09-001 3.9 regarding outstanding accounts, we analysed a sample of 25 purchases made during the lot draw process and outside of the lot draw process, in coordination with an earlier test regarding C09-006.
  - (UE) For approximately half of the purchases selected, there were outstanding contractor balances related to the purchase as of July 31, 2016. Based on the number of days outstanding between the date of purchase and July 31, 2016, all of those purchases which should have resulted in the contractor being included on the delinquency list as of July 31, 2016 were included. However, for one of those contractors, purchases had been made since the time of delinquency.

- Additional testing of compliance with C09-001 3.9 regarding outstanding accounts was performed, which focused on the AR suspensions listings prepared monthly by Saskatoon Land and whether the items identified in those listings resulted in the appropriate suspension from further purchases during the months in violation of C09-001 3.9.
  - (KE) During the January 1, 2015 to July 31, 2016 period, IA identified 5 contractors who made purchases of 19 additional lots through lot draws and/or over the counter sales while on the suspension list for outstanding accounts. While in some cases Saskatoon Land applied discretion, such as ensuring that a signed sales agreement was in place for homes on outstanding lots before allowing a further purchase to be permitted and requiring the payment of all outstanding interest such that only principal balances remain, according to the policy as written these purchases were not in compliance. Saskatoon Land noted to IA that it considers applying discretion in the enforcement of the outstanding account requirement and allowing for sales to take place to be beneficial for both Saskatoon Land and its customers as it provides Saskatoon Land with a lot sale and provides the customer with additional cash flow which it can use to pay down the balance owing. Saskatoon Land considers the use of discretion in these circumstances to be consistent with policy and City Council's priority and strategy to create a business friendly environment.
  - (KE) Through IA's review of the AR suspensions list and testing on payments and extensions granted, IA noted that there is currently a discretion exercised in the enforcement of procedures and significant leeway being provided to contractors in terms of timeframe to pay. There were instances of written requests from contractors for the 8-month to 12-month extension being received and approved outside of the extension period as well as late payment of the minimum payment required to be qualified for an extension from the 12 month period to the 16-month period. IA notes that in instances when payment was late, the extension period had been properly granted.
    - RECOMMENDATION #8 - With the new non-manual system in place to track outstanding accounts, given currently policy as written IA recommends that Saskatoon Land adhere strictly to the requirements with respect to outstanding accounts and be diligent in suspending contractors from further purchases once the 16-month limit is reached, regardless of extenuating circumstances. Under current policy as written, our recommendation would be that no additional purchases be made without actual settlement of the outstanding account, as the commitment to settle an outstanding account is not equivalent to actual settlement of the account. If there is a level of discretion that the SPC on Finance is comfortable having Saskatoon Land

exercise with respect to allowing additional purchases to contractors with outstanding accounts at the time of the proposed purchase, IA recommends that this be incorporated into existing policy or, if full discretion is desired, that this requirement be removed from policy altogether.

- RECOMMENDATION #9 - IA recommends that an examination of the outstanding account procedure and the enforcement thereof be undertaken, as much for the sake of finances/operations as adherence to policy. Each month there is an average of 15 contractors on the AR suspensions listing, and there are several contractors in frequent violation. The exertion of more rigour with respect to enforcement of the extensions as opposed to a rebuttable presumption that each contractor will take the full 16 months to pay will assist in this regard, as will more consistent application of the policy to suspend after 12 months as opposed to 16 months if the criteria for the 16-month extension is not met, including receipt of additional payments.

ii) Summary of Results from Procedure 1c)

With respect to our testing of compliance with policy in relation to the Eligible Builder's List, we noted seven instances where purchases were made by contractors not compliant with policy at the time of purchase, either as a result of an outstanding application or an account not in good standing (KE). We also had comments on the process regarding outstanding accounts and the enforcement of the policy in that area. From these findings and comments we have three recommendations for Saskatoon Land, noted in green in the above section.

d) Time Frame to Build Requirement

i) City of Saskatoon Council Policy C09-006 3.9

In City of Saskatoon Council Policy C09-006, 3.9 ("Time Frame to Build Requirement"), it states that "Purchasers are required to build a fully completed residence by obtaining a clear Final Building Inspection within three years, commencing upon the date of the Agreement for Sale".

Additionally, there are specific clauses in 3.10(b) ("Enforcement of Residency and Time Frame to Build Requirements for Eligible Contractors") that address the temporary removal of violators of this requirement from the Eligible Contractor Listing until the violation has been rectified in full and also provide three specific conditions under which an eligible contractor can receive a 1-year build time extension from Saskatoon Land.

ii) Saskatoon Land Internal Procedure - "Three Year Build Time Verification"

Saskatoon Land also has a process document "Three Year Build Time Verification" which guides employees as to how to verify compliance with the Time Frame to Build Requirement. The process, which is performed every other month, is intended to identify contractors that are within 6 months of the build time limit in order that notification can be provided by Saskatoon Land. We noted that Saskatoon Land had self-identified issues in attempting to automate thisprocess, with the impact being that instances of violations were going undetected. During the period under audit, the process relied on a bridge reporting system between software programs to identify builders in violation of the build-time requirement. This attempt at automating the process was not successful as Saskatoon Land found that there were inaccuracies and deficiencies in the data.

iii) Final Building Inspections

Note that in order to verify the date of a clear final building inspection, IA obtained a print out from the Posse system that lists the types of inspections performed, the date of the inspection, and the status of the permit (i.e., closed or open). IA contacted a representative from the Building Inspection department to inquire regarding further documentation that might exist with respect to final inspection dates. We noted that the final inspector does not retain a signed and dated inspection report but simply indicates electronically in the system that an inspection was performed and the date thereof. We noted, via discussion with Saskatoon Land, that the first final inspection date listed on the report is the date used to determine whether the contractor is in compliance with the Time Frame to Build Requirement (i.e., substantially complete) and that at this time Saskatoon Land will also consider the nature of the deficiencies still existing (i.e., major structural). This requires discretion to be exercised by Saskatoon Land as often there are follow-up final inspections completed after the initial final inspection (i.e., Posse reports for a given site may contain multiple final inspection dates). Additionally, often there are multiple inspectors at a given site over time and individuals may document the inspections differently, making it difficult to differentiate the true, "clear" final inspection. And finally, there could also be inspection dates noted on the Posse report where a home builder was not present and hence no final inspection was actually performed on that date. As a result of the combination of these factors, by using the first final inspection date in Posse, the Time Frame to Build Requirement can be met by a contractor with the permit on the site still being designated as "open" and the building not fully complete.

Another issue stemming from the inconsistencies noted in the preceding two paragraphs is that warning letters are being sent out at times with inaccurate information, or for a lot where Saskatoon Land has accepted a building as being substantially complete based on the first final inspection being recorded in the system but the contractor is still receiving a letter indicating that there is a pending violation as the permit has not been closed. The warning letters are generated and sent automatically however the violation letters are manually produced by Saskatoon Land, therefore a contractor who inadvertently received a warning letter would not necessarily also inadvertently receive a violation letter.

iv) Testing of Compliance with C09-006 3.9

For our testing of compliance with C09-006 3.9, we analysed a sample of 55 purchases made during the period from January 1, 2010 to July 31, 2013 in order to validate compliance with the Timeframe to Build Requirement for the period from January 1, 2015 to July 31, 2016. For the sample of purchases, we noted the following:

- (KE) During the timeframe analysed, the date of the sales agreement is often not the same as the date of possession, in some cases up to a period of 7 months. When administering the Time Frame to Build Requirement, Saskatoon Land considers the requirement to begin from the later of the sales agreement date and the possession date. Saskatoon Land noted to IA that in its opinion this discretion is necessary as Saskatoon Land considers it unfair to hold a builder accountable to a build time requirement for the time period that they are not in possession of the lot, as often single family lots are allocated to builders by Saskatoon Land in advance of servicing completion, which means that the sale agreement is signed before they take possession of the lot.

- (UE) Further to the background provided related to complications with the manual process noted in d) ii) above, based on examination of the reports produced by Saskatoon Land to facilitate monitoring of the Time Frame to Build Requirement it appears that the process had not been conducted every other month, as there were more than 2-month gaps between certain reports produced. Additionally, some of the reports were generated for the incorrect date resulting in builders in violation not being included on the violation list or, more predominantly, builders in violation incorrectly being included on the violation list.

- (UE) Further to the background provided related to warning and violation letters in section d) iii) above, it appears from our examination of the date of the violation letters sent (for instances in our sample of purchases where there were violations) that the letters are not being sent out in a timely fashion.

- (UE) As a culmination of the factors noted above, there were instances noted during our sample where contractors were both inappropriately included and excluded from the listing of violations. In all but one instance, there were no ramifications in terms of non-compliance with policy (i.e., sale of a lot to an ineligible contractor). In that instance, there was a contractor with several lots in violation of the Timeframe to Build Requirement that was permitted to participate in a lot draw and ineligibly purchased eight lots. That same contractor was also in violation of the Outstanding Accounts requirement at the time of those purchases. Saskatoon Land has indicated to IA that it believes the instances of allowing contractors in violation to purchase lots were a result of errors in importing incorrect site identification numbers into Reflex as well as Posse permit record reports for which the system was indicating final inspections for secondary permits such as basement development, decks and secondary suites despite the primary dwelling permit remaining open.

  - RECOMMENDATION #10 - IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.9 with respect to the Time Frame to Build Requirement. Saskatoon Land's responsibility under C09-006 is to "Administer the sale of City-owned residential lots in accordance with the terms and conditions set out in this policy". The discretion required to be exercised regarding inspection dates indicates that further clarification is needed within policy to ensure fairness and consistency in application of the Time Frame to Build Requirement (i.e., to clearly define when a building is considered complete by Saskatoon Land, including any types of outstanding deficiencies that are acceptable for purposes of enforcing this requirement). IA also recommends that either additional coordination occur between Saskatoon Land and Building Inspection to ensure that there is proper application of policy with respect to "a clear Final Building Inspection" or that the responsibility for enforcing this requirement be removed from Saskatoon Land altogether and become the responsibility of the Building Inspection department.

- RECOMMENDATION #11 - IA recommends that Saskatoon Land implement a new procedure for monitoring and enforcing the Time Frame to Build Requirement. Based on the items noted above, it would be reasonable to conclude that the Time Frame to Build Requirement has not been adequately enforced during the period inspected due to the process implemented and the significant challenges that Saskatoon Land has faced in its attempts to prepare the report via an automated method. Although our preference would be that Saskatoon Land work with the software provider(s) and/or the City of Saskatoon Information Technology department on an automated solution to monitoring and enforcing the Time Frame to Build Requirement, we understand that attempts to do so during the period under audit were unsuccessful and that a new tracking system has been implemented within the software to facilitate monitoring and enforcing the Time Frame to Build Requirement.

- RECOMMENDATION #12 - IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.9 with respect to allowing for the possession date to be used as the commencement date in place of the date of the Agreement for Sale.

v) *Summary of Results from Procedure 1d)*

With respect to IA's testing of compliance with policy in relation to the Time Frame to Build Requirement, several instances were noted where discretion was applied that was not a direct interpretation of the policy as written, and overall IA noted issues with the internal procedure in place to monitor and enforce the Time Frame to Build Requirement which ultimately rendered the policy ineffective. Saskatoon Land has indicated that recent changes to the internal manual procedure to monitor build time requirements represent an improvement that will enable more effective enforcement of the requirement. IA also had comments on the process regarding building inspections and the degree to which it currently impacts interpretation of the policy by Saskatoon Land. From these findings and comments IA has three recommendations for Saskatoon Land, noted in green in the above sections.

Procedure 2: Conflict of Interest

Explanation of Procedure

This procedure was designed to analyse current Conflict of Interest guidelines for Saskatoon Land to assess whether adequate safeguards exist for Administration to avoid, and/or declare, any real or perceived conflict of interest pertaining to builders who deal with Saskatoon Land and their trades. IA also sought to obtain information regarding the extent to which individuals are required to formally declare a conflict of interest (or the absence thereof) during the year. To assist in these efforts, IA interviewed a cross-section of individuals employed during the January 1, 2015 to July 31, 2016 period across Saskatoon Land's various departmental areas.

a) City of Saskatoon Administrative Policy A04-006 "Employee Conflict of Interest"

Saskatoon Land follows City of Saskatoon Administrative Policy A04-006 "Employee Conflict of Interest". The stated purpose of the policy is "to ensure that civic employees and officials are not placed in a position of conflict of interest and are not seen to be in a position of conflict of interest". The policy then has 6 paragraphs in which it speaks to high-level instances of what may constitute a conflict of interest.

Policy A04-006 is particularly relevant to the more client-facing managers and staff at Saskatoon Land (i.e., those who interact with homebuilders and trades on a regular basis as a function of performing their job duties). Saskatoon Land has no more formal policies in place with respect to conflict of interest than does the City of Saskatoon itself.

One particular challenge that could arise for Saskatoon Land employees relates to how to conduct any work on their own personal property which might require one of the eligible contractors or a trade thereof. Practically speaking, an individual employed by Saskatoon Land would out of necessity be required to use one of the eligible contractors or trades that performs work with Saskatoon Land, as otherwise they might need to find a service provider from outside of the community. The issue in this case is more one of "not being seen to be in a position of conflict of interest".

Another challenge is derived from the need for Saskatoon Land management and staff to perform business development while also being mindful of the highly regulated environment in which they work. This is not unlike the challenges faced by many professional services firms. It is logical that to be in the business of land development there is a degree of interaction required with homebuilders to ensure that Saskatoon Land is fulfilling its mandate, while also complying with some of the fairness principles and policies (such as Conflict of Interest) that govern the City of Saskatoon. These similar challenges do not exist to the same degree for the other private land development enterprises in the City of Saskatoon. The primary checks and balances in place for Saskatoon Land in this regard are the lot draw process, the eligible contractor's guidelines, and the tendering process in place for both a) lots falling outside of the lot draw and non-residential lots and b) purchases of services by the site preparation arm of Saskatoon Land. A04-006 2.6(a) and (b) does contemplate the "normal exchange of hospitality between persons doing business together" and "gifts which represent the normal exchange of gifts among friends, tokens exchanged as part of protocol.....such as a business lunch, are acceptable".

b) Interviews Conducted

In conducting our interviews with current and former employees of Saskatoon Land, we noted the following:

- There was no known or communicated requirement to report on conflicts of interest, or the absence thereof, on a regular basis.
- There were no previously unresolved conflicts of interest detected during the period in question.
- There was a general awareness of the City's conflict of interest policy and instances of how it might be applicable to the day-to-day business of Saskatoon Land. Specific instances were provided relating to: awareness of A04-006 6(a) and (b) with respect to receiving gifts or benefits, not providing recommendations of builders when individuals call Saskatoon Land for advice, removing oneself from any decisions where the individual has specific connections to the decision at hand or could be personally impacted.

c) Recommendations

RECOMMENDATION #13 - IA recommends that a formal Employee Conflict of Interest policy specific to Saskatoon Land be developed. This policy would use the City of Saskatoon's Administrative Policy A004-006 as a template, but within each of the 6 sections of the policy could give more specific instances of applicable circumstances which could arise at Saskatoon Land. The existence of the policy would provide more certainty for Saskatoon Land employees of what precisely constitutes a conflict of interest and would work to eliminate any lack of clarity in this area that currently might exist. Saskatoon Land could refer to the code of conduct and conflict of interest policy in place at Calgary Municipal Land Corporation or Surrey City Development Corporation for examples (refer to Procedure 6 for further comments these municipal land corporations).

RECOMMENDATION #14 - IA recommends that subsequent to the Saskatoon Land conflict of interest policy being finalised, that it be presented formally to all Saskatoon Land staff. This should be supplemented by a formal annual declaration from each employee that they understand the policy and are conflict-free. Finally, at the bi-weekly team meetings that take place at Saskatoon Land, conflict of interest should be a standing item on the meeting agenda so that there is an open forum for management and staff to discuss potential conflicts of interest. In particular, this would provide an opportunity to discuss any work being done personally for Saskatoon Land management and staff by contractors and trades (both before and during) and also to discuss any business meetings taking place.

Procedure 3: Lot Prices/Lot Pricing Process

Explanation of Procedure

This procedure was designed to analyse the residential lot pricing process with an aim of assessing the degree of subjectivity in place for each element and the degree of documentation and fact-based evidence in place for each element. Additionally, IA utilised available market data from various sources, including private sales in Saskatoon, bids received on the open market in Saskatoon, and market data pertaining to other relevant municipalities, in an attempt to assess the correlation between the City's residential pricing and the Saskatoon/Saskatchewan market.

a) Residential Lot Pricing Process at Saskatoon Land

Saskatoon Land's residential lot pricing is based on both a) an assessment of current market conditions to determine comparable prices for similar parcels in the Saskatoon market and b) an assessment of the pricing required to earn a reasonable return based on costs. More specifically, Saskatoon Land's residential lot pricing is influenced by factors such as: servicing costs (annual increases or decreases to the approved prepaid servicing rates from year to year); investment return targets (current pricing must support the expected revenue required to deliver the current return that has been projected); location (i.e., west vs. east, proximity to significant natural areas or other amenities); and professional judgement (pricing that the respective land offering can bear in the current market).

Saskatoon Land prepares a "Request to Sell Property" (henceforth referred to as a "Request" for purposes of this report) to the SPC on Finance prior to the release of each new neighbourhood. Within the Request, the number of lots are outlined, as is the method of sale (i.e., lot draw then over-the-counter) and the authorization of the Director of Saskatoon Land to make minor adjustments to the approved pricing that maybe be necessary to account for changes in servicing costs and lots being returned. Each Request highlights the proposed price ranges in the lot draw.

When detailing the lot pricing in the Request, the range of lot sizes and types are described as is the general breakdown and unique features of the lots. The lot prices are determined based on an examination of current lot prices for comparable properties in the Saskatoon market. One inherent challenge in this process is that a significant number of the current lot prices for comparable properties in the Saskatoon market are those belonging to Saskatoon Land, due to its significant presence in the Saskatoon market. This will be commented on in further detail in section b) that follows. A base unit price per front metre is determined and is used to calculate the lot prices. Adjustments are then made to the base price to account for lot location and lot specific characteristics.

Saskatoon Land also prepares a "Financial Information Report" which provides information to the SPC on Finance on the financial projections of each development – the information is deemed highly confidential and remains in-camera. Each report highlights the total number of lots in the development, the total combined revenue anticipated to be generated, and the total expenses (which are comprised of levy costs, direct and off-site servicing costs, neighbourhood enhancements, and administration expenses). Area enhancement expenses for a typical development could include such items as: drainage/buffer landscaping, greenway landscaping, paved lanes, utility relocations, roadway infrastructure, streetscaping, neighbourhood fencing, maintenance, dry and wet pond enhancements, linear park irrigation, and additional area grading. Administration costs include marketing costs (including sales incentive rebates), land administration fees to Saskatoon Land, survey and design costs and property taxes. The total anticipated return on sales is provided in the report, both in terms of net dollars and as a return percentage.

b) Residential Lot Pricing Process – External Indicators

Comparatives available for Saskatoon Land include residential pricing received from the City Assessor of the City of Saskatoon (which IA understands to be publicly available information), current competitor land pricing through builder websites (i.e., for Brighton), and lot prices posted by other municipalities (particularly those of other municipalities with land development activities similar to Saskatoon Land, regardless of scale of those activities). Although there are certainly other economic factors impacting the lot prices being charged in other municipalities, and there are considerations for the type of neighbourhood being developed, these still provide a comparison point in order to consider the reasonability of lot pricing by Saskatoon Land.

For instance, using Aspen Ridge Phase II as an example, IA obtained a file from Saskatoon Land indicating an analysis of recent sales made by vendors in both Brighton and Rosewood in 2016, including the price per square foot, the price per front metre, the shape (i.e., reverse pie, pie, rectangle), the class (lane, park, traditional, buffer) and the average price per front metre and square foot per class.

With respect to Saskatoon-specific pricing, Section 3c) i) through c) vi) that follow capture analysis and comments with regards to comparatives available. With respect to other Western Canadian municipalities involved in land development, based on recent average lot prices in neighbourhoods in Edmonton (Laurel - $167k and Oxford - $172k) and Red Deer (Garden Heights - $181k), Saskatoon's recent average lot prices in Parkridge ($154k), Aspen Ridge - Phase I ($147k) and Aspen Ridge – Phase II ($160k) are comparable. Recent average lot prices in neighbourhoods in Lethbridge (Sun Ridge, Crossings and River Stone - $95k) and Medicine Hat (Southlands and Ranchlands - $91k) are significantly lower.

In terms of recent average lot prices per front metre at other Western Canadian municipalities involved in land development, information was available for Saskatoon, Red Deer and Lethbridge. The base lot price per front meter used for Parkridge was $10,650 and for Aspen Ridge (Phase I) was $11,500. For Aspen Ridge (Phase II) the minimum front meter price is approximately $10,200 with the maximum front meter price being approximately $14,800. In the Red Deer neighbourhood of Garden Heights, the average price per front meter was approximately $11,500 and in Lethbridge the average price per front meter for the three recent neighbourhoods outlined above was approximately $7,300.

A review of recent average lot prices in other Western Canadian municipalities at the present time would suggest, at a high level, that the lot prices being utilised by Saskatoon Land are reasonable. Sections 3c) i) through c) vi), that follow immediately below, also speak to this same type of reference point and conclusion based on more specific Saskatchewan and Saskatoon data.

c) Residential Lot Pricing Process – Market Comparisons

OAs a result of the significant presence of Saskatoon Land in the Saskatoon market, it is difficult to assess independent comparatives within the Saskatoon market without referring back to Saskatoon Land's own lot sales and this self-referencing presents an inherent challenge to the lot pricing process. Section 3a) immediately above detailed the process used by Saskatoon Land for lot pricing and the factors considered, while section 3b) immediately above commented on that lot pricing process and comparable pricing at other municipalities which have land development activities similar to Saskatoon Land. Sections 3c) i) through c) vi) that follow focus on the Saskatoon market itself, both in terms of its behaviour relative to other Western Canadian municipalities since 2010 and also in terms of lot prices within Saskatoon since 2010.

i) City of Saskatoon Residential Lot Market

In understanding Saskatoon Land's lot pricing process, and more specifically to comment on whether Saskatoon Land is responding to the market or driving the market, the same inherent challenges noted above are applicable. As outlined below in Figure 3 c) i) 1), Saskatoon Land sold between 54% and 62% of all residential lots sold in the City of Saskatoon between 2010 and 2013. During 2014 and 2015, that dropped to 40% to 41%. During that same timeframe, as outlined in Figure 3 c) i) 2), the next largest developer was responsible for 16% (2013) to 39% (2015) during that same range of 2010 to 2015. The most recent year, 2015, was the most diverse as the sales by other developers in the marketplace exceeded Saskatoon Land's (42% to 40%) while the other dominant developer in the marketplace had an additional 18%. This is in large part a function of the fact that overall lot sales, in terms of quantity, were significantly down from previous years; therefore, the impact of the individual sales by other developers had a more direct impact on the % of market share than it did in years in which the amount of lots sold was significantly higher.

Figure 3 c) i) 1)

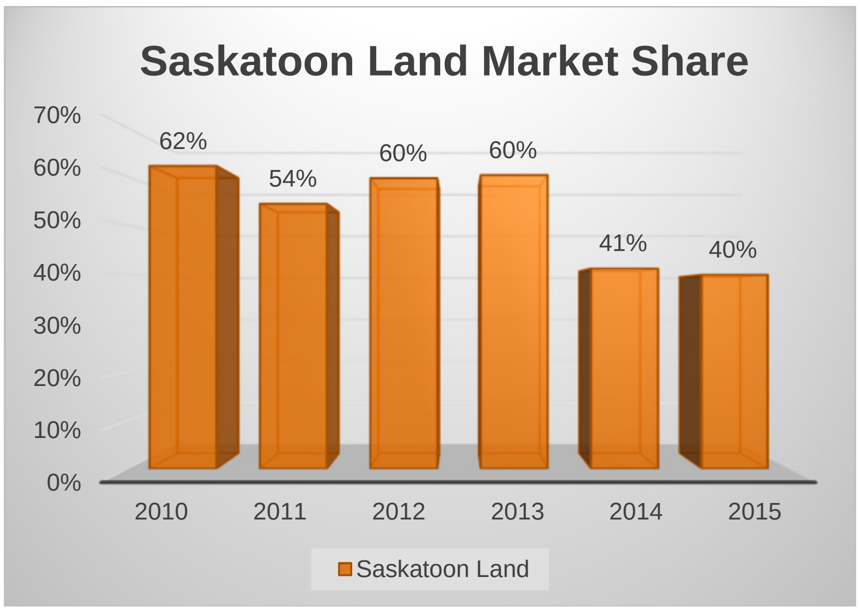
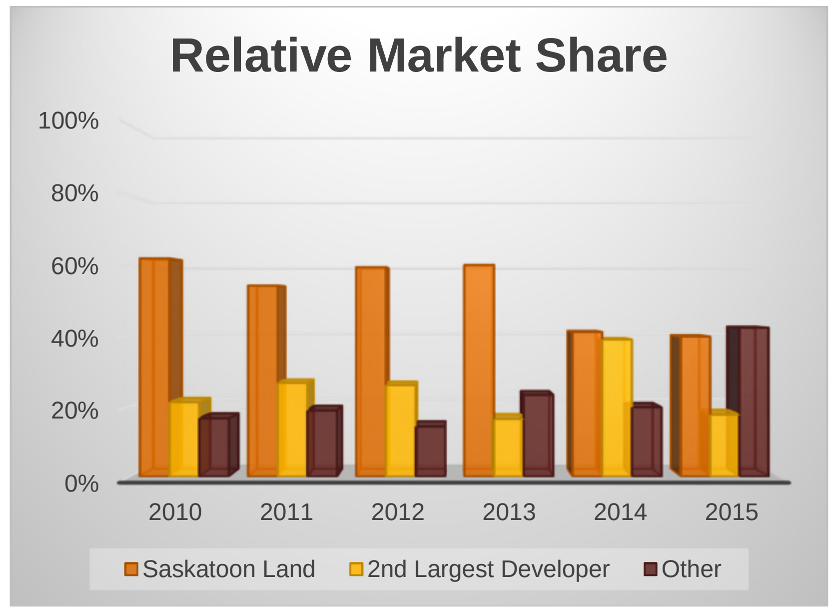


Figure 3 c) i) 2)



In having one individual entity within the marketplace responsible for the majority of sales in that marketplace, regardless of whether it is a municipal entity or otherwise, general economic logic would dictate that the dominant entity will inherently drive market dynamics. Whether intentional or not, and irrespective of policy in place to ensure competitiveness and responsiveness to the market, there is a degree to which Saskatoon Land, by virtue of its dominance in the market, will impact that market. There will be a degree of interplay to which competitors are jockeying for position and there will also be a degree to which competitors are following the prices being determined by Saskatoon Land.

The mitigation to that is the lot pricing process described in sections a) and b) immediately above and the diligence that Saskatoon Land undertakes to determine its pricing. In addition, there is underlying data available which can be used to assess the performance of the Saskatoon market and the degree to which it is impacted by Saskatoon Land's presence. Arguably, the most meaningful method of analysis to determine if there is a degree to which Saskatoon Land negatively impacts the market is not possible - to compare the Saskatoon market with Saskatoon Land present to the same market in the absence of Saskatoon Land. As this is not possible, IA assessed available market data.

ii) Market Factors and Measures: New Housing Price Index (NHPI) – 2010 to 2016

Per Statistics Canada, the New Housing Price Index (NHPI) is released each month and measures changes over time in the contractors' selling prices of new residential houses, where detailed specifications pertaining to each house remain the same between two consecutive periods. The survey also collects contractors' estimates of the current value of the land; these estimates are independently indexed to provide separate statistics for land versus the constructed home itself. The residual (total selling price less land value) represents the current cost of the structure and is independently indexed to provide the statistics for the constructed home. The NHPI is used by housing economists, universities and the general public to track and comprehend events and trends in this component of the construction sector. The information produced by the NHPI is of interest to the real estate industry, as well as building contractors, market analysts interested in housing policy, CMHC, and provincial and municipal housing agencies responsible for housing policy. The reference period is the time period for which the NHPI equals 100, which is currently 2007. The target population for the NHPI is builders in 21 metropolitan areas who primarily build single unit houses in such volume or in such fashion that they can report selling prices for comparable transactions. The total number of builders selected for each city represents at least 15% of the total building permit value of that city. A small portion is also determined through the use of "local market intelligence".

The NHPI statistics for Saskatoon indicate values in the range of 115 to 121 over the period from 2010 through to 2016 (up to August 2016). When looking at Saskatoon only, in **Figure 3) c) ii) 1)**, it indicates that while the NHPI for a house only has increased by approximately 2% over the 7-year period (109 to 113), the NHPI for land only has increased by approximately 9% over that same period (135 to 150).

In terms of the gap between the NHPI for house only versus land only (26.8 in 2010 compared to 36.8 in August 2016), both the gap itself - **Figure 3) c) ii) 2)** - and the growth in the gap - **Figure 3) c) ii) 3) and Figure 3) c) ii) 4)** - over the 7-year period are comparable to that seen in other municipalities. In terms of **Figure 3) c) ii) 2)**, which illustrates the gap itself, the most comparable municipality is Regina, which has a gap comparable to Saskatoon's (indicating similar discrepancies between the rise in the value of land for new homes and the rise in the value of the new home itself) and operates without a municipal land operation. Winnipeg and Edmonton have gaps as well, with Winnipeg's being less than that of Saskatoon's and Regina's and Edmonton's being almost non-existent. In terms of **Figure 3) c) ii) 3) and Figure 3) c) ii) 4)**, which illustrates the growth in the gap, Saskatoon's changes year-by-year and overall since 2010 are comparable to, and in some cases significantly less than, the other municipalities.

The combination of these figures would indicate that the pricing of lots, based on Saskatoon Land's lot pricing policies, relative to the pricing of homes, is consistent with the trends in other municipalities that lack a prominent municipal development entity.

Figure 3) c) ii) 1)

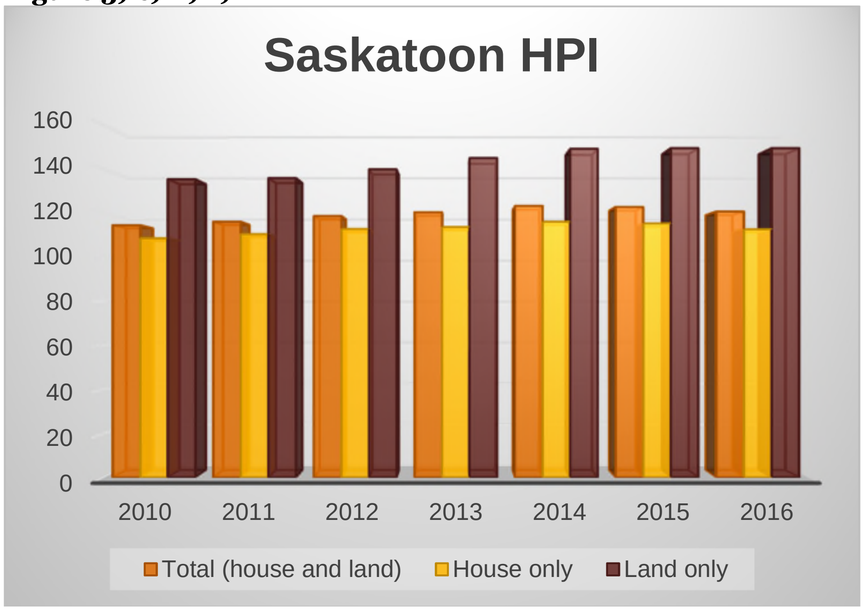


Figure 3) c) ii) 2)

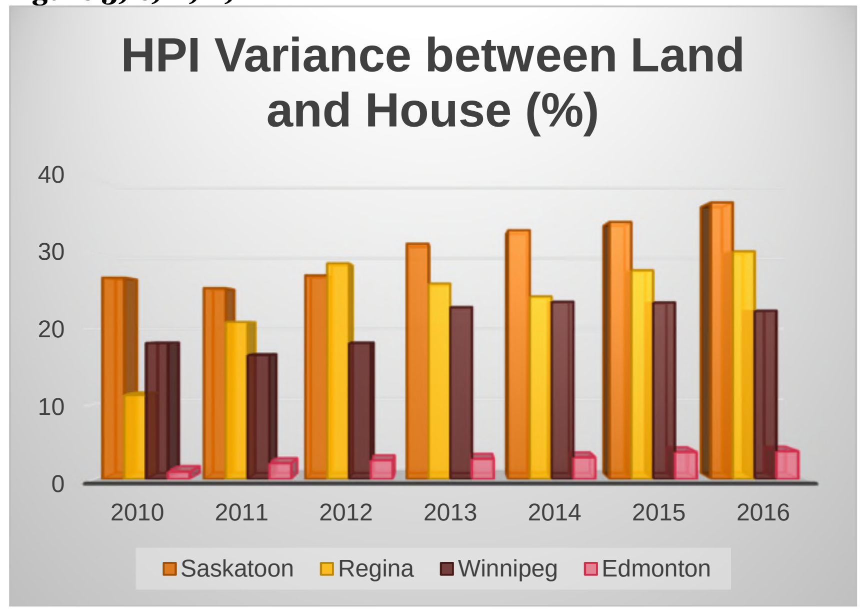


Figure 3) c) ii) 3)

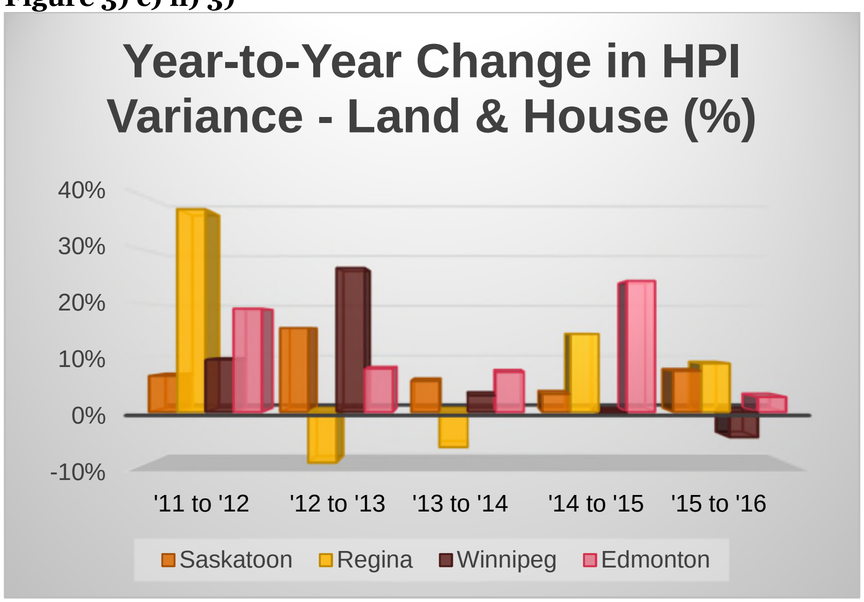
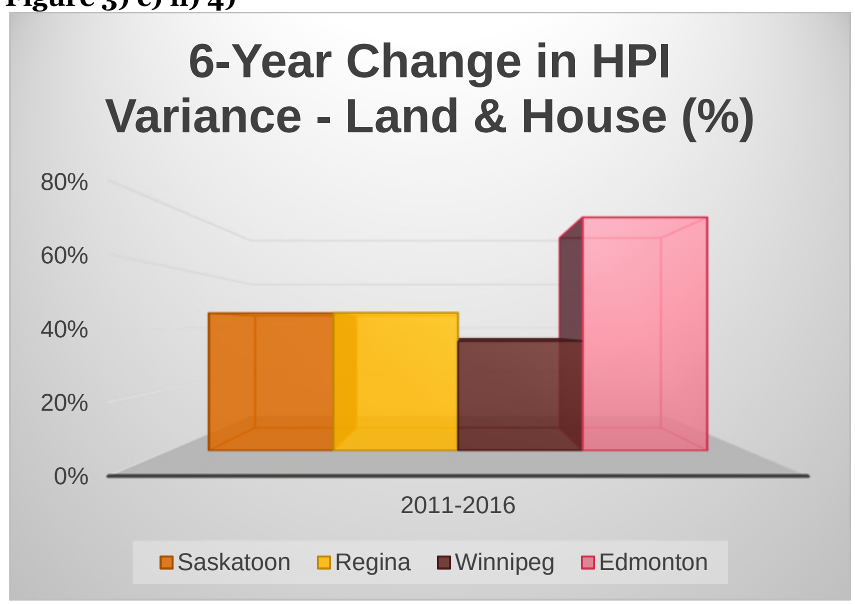


Figure 3) c) ii) 4)



iii) Market Factors & Measures: MLS Average Prices / CMHC Average Single-Detached

The MLS average price statistics indicate that the change in average prices in the Saskatoon market – **Figure 3) c) iii) 1) and Figure 3) c) iii) 2** – are comparable to those experienced in other municipalities (either within the reasonable range or in many instances lower) and the trends in the average prices of single-detached homes – **Figure 3) c) iii) 3) and Figure 3) c) iii) 4)** – are also comparable to those experienced in other municipalities. Of course there are other economic conditions at play in each of these municipalities that are unique; however, all else being equal, this indicates that the Saskatoon market is experiencing market price changes consistent with other comparable municipalities which do not have a prominent municipal development entity.

Figure 3) c) iii) 1)

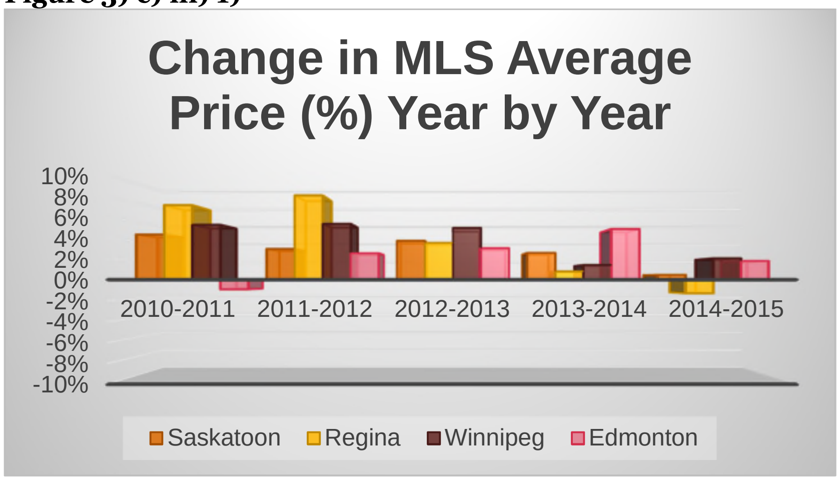


Figure 3) c) iii) 2)

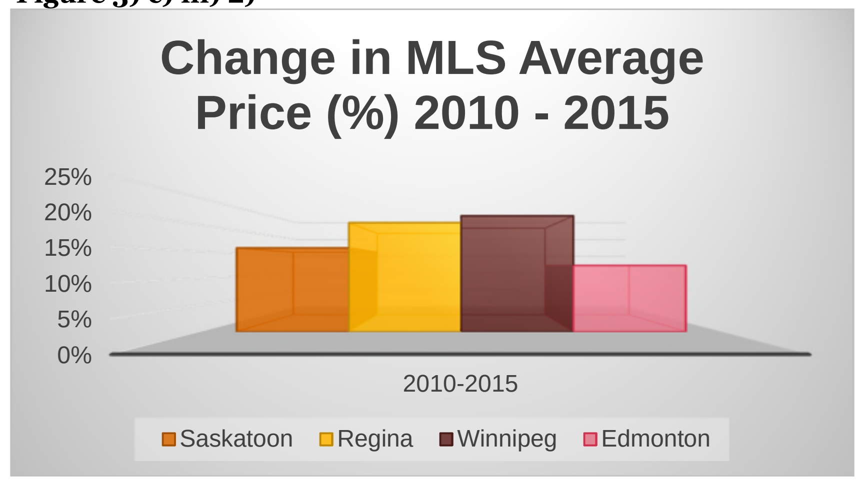


Figure 3) c) iii) 3)

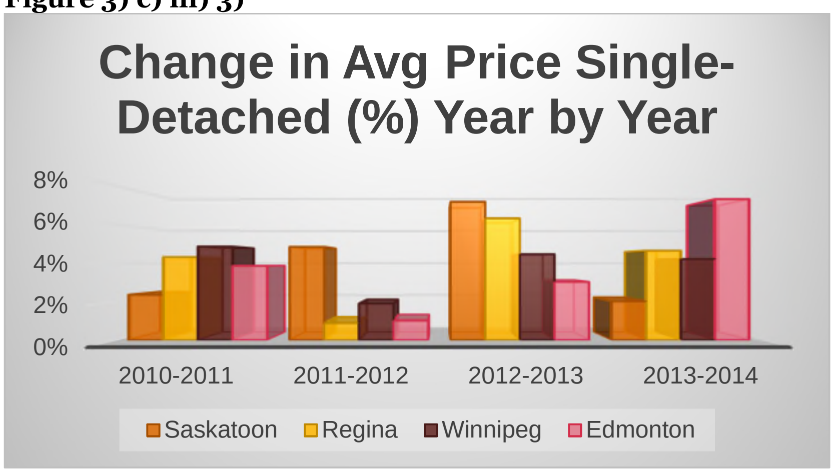
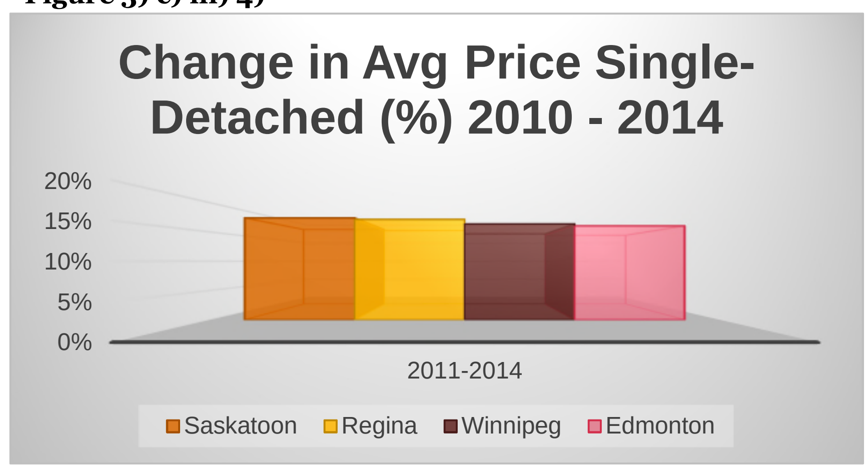


Figure 3) c) iii) 4)



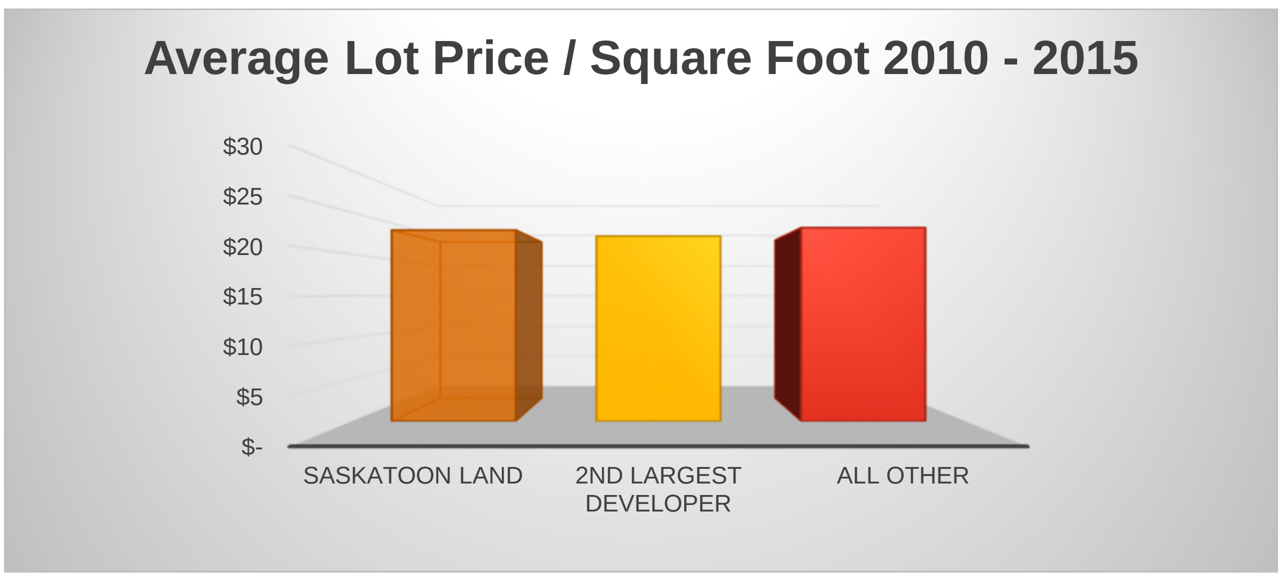
iv) Market Factors & Measures: Saskatoon Residential Lot Sales – 2010 to 2015

IA obtained, from the City Assessor for the City of Saskatoon, information on all residential lot sales occurring from January 1, 2010 through December 31, 2015. This information included the sale date, the sale price, the neighbourhood in which the lot was sold, the vendor and the size of parcel. From this information, IA was able to assess City of Saskatoon land sales by neighbourhood (on a per unit basis) to those of other vendors. It warrants repeating that there is a degree to which Saskatoon Land, by virtue of its significant presence in the market, will impact the market conditions, such that there will be some degree to which competitors are "jockeying for position" and there will also be some degree to which competitors are following or "riding" the prices being determined by Saskatoon Land.

Note that Saskatoon Land also leverages this same information as part of the process to determine fair market value. There is processing required to the raw data however, as lot frontages are factored in to determine the front metre price due to lot widths and types typically not being included in the City Assessor's data. Saskatoon Land also removes sales that appear to be "below board". Saskatoon Land also notes that the data has a time lag that is required to be factored into their consideration. Although the data identifies developer to builder land transactions, Saskatoon Land notes that sales prices used in these transactions may be slightly outdated for certain lots as payment terms in the related Sales Agreements may allow up to a year before the lots are paid out and titles transferred, in which case the sales data for those transactions will be a year behind.

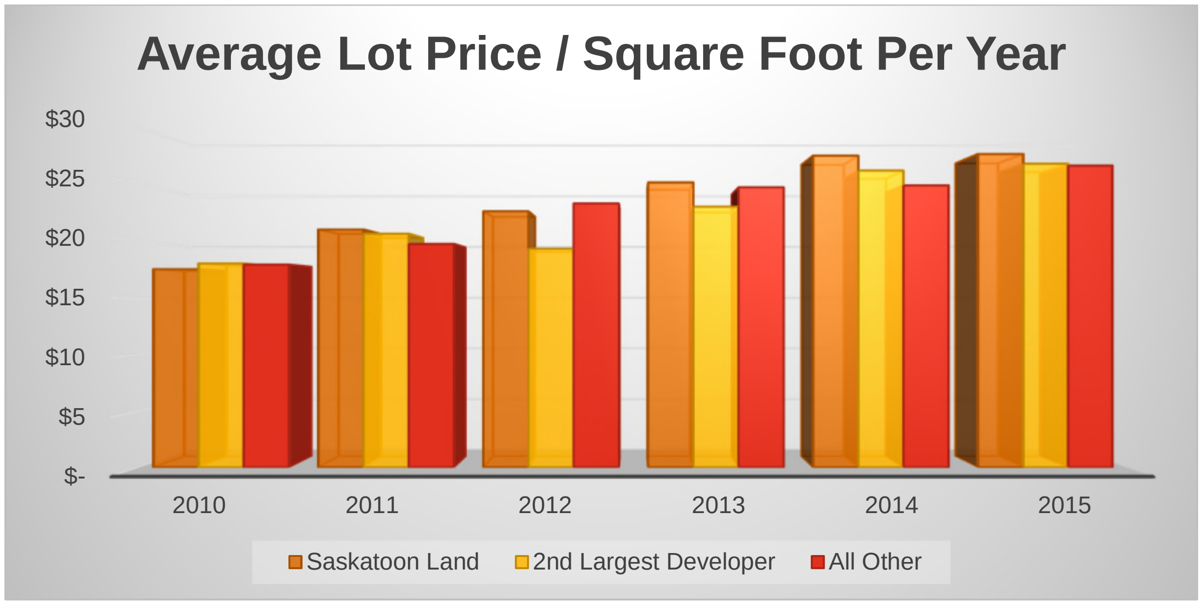
From an overall perspective, the average price per land unit over the 6-year period when comparing Saskatoon Land to the next largest developer to all other developers combined is comparable, as indicated in **Figure 3) c) iv) 1)** immediately below. Note that during this period Saskatoon Land represented 57% of all sales and the next largest developer 27%. The bottom 5% of all sales in the market were removed from the analysis to remove the impact of "one-off" sales in neighbourhoods with minimal sales activity which skewed the average price of the "All Other" category.

Figure 3) c) iv) 1)



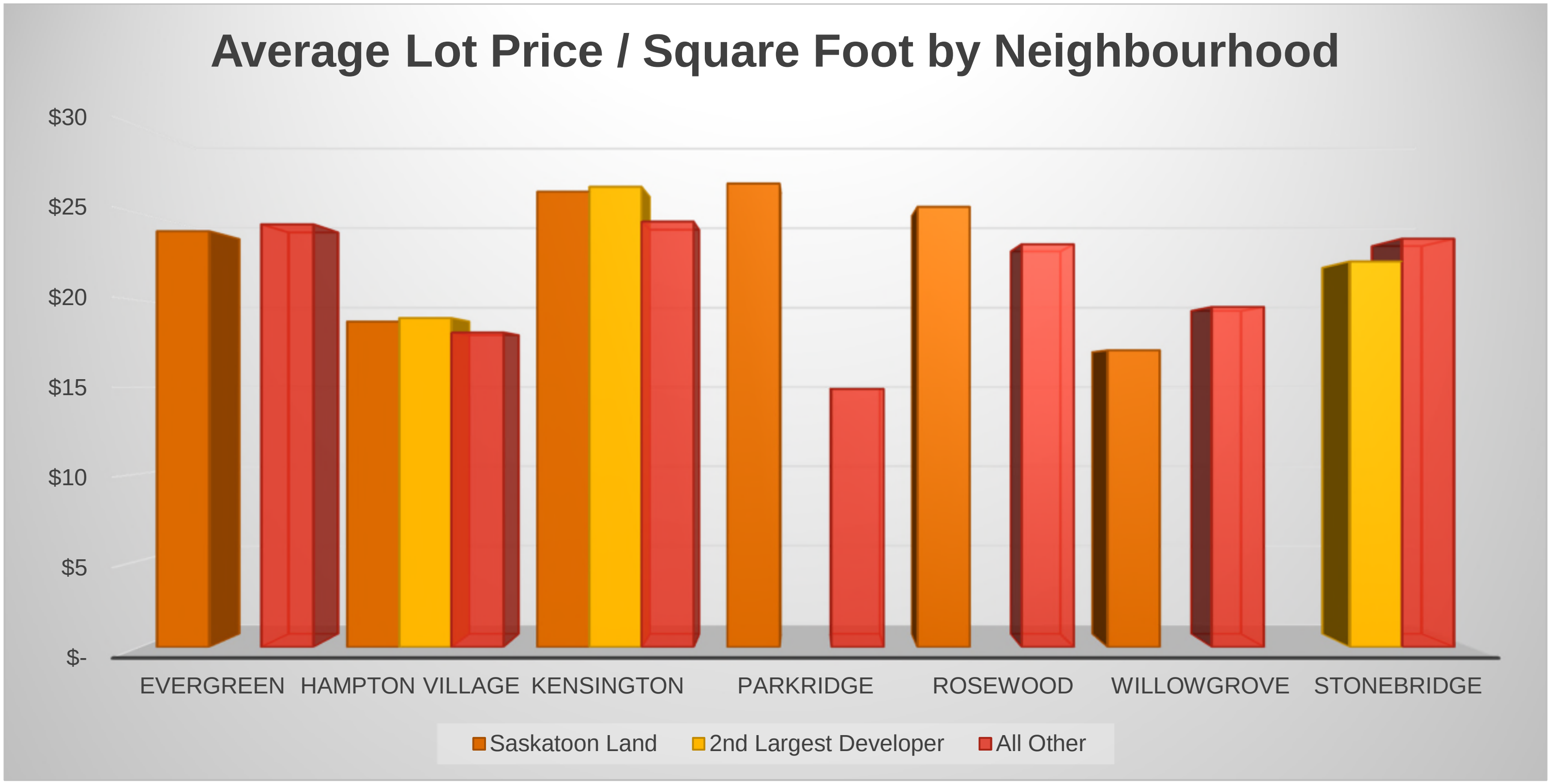
Note that when performing the same analysis within each year of the 6-year periods in **Figure 3) c) iv) 2)** below (and continuing to exclude the bottom 5% of all sales in the market, representing the least active neighbourhoods), while there is slight movement in the relative position of each category year-over-year, the same holds true in terms of comparable lot prices per land unit between Saskatoon Land, the next largest developer, and all other developers.

Figure 3) c) iv) 2)



Note that there are only two primary neighbourhoods where both Saskatoon Land and the next largest developer sold residential lots during the 2010 to 2015 period (Hampton Village and Kensington), and only one neighbourhood from which Saskatoon Land was absent (Stonebridge). In all neighbourhoods with the exception of Parkridge - as demonstrated below in **Figures 3) c) iv) 3) and 3) c) iv) 4)** - there was a fairly reasonable correlation between the average lot price per land unit for Saskatoon Land and the average lot price per land unit for other vendors in the neighbourhood. In Rosewood, the average lot price per land unit for Saskatoon Land was slightly higher than for all other vendors, whereas in Willowgrove the opposite was the case. The average lot price per land unit in Stonebridge, which preceded other neighbourhoods in the chart and from which Saskatoon Land was absent, is within the band of lot prices per land unit in other neighbourhoods. Of course there will be certain characteristics of the lot within each neighbourhood which impact lot price per land unit and there are characteristics unique to the neighbourhoods themselves, but when analysed at this level it would suggest that competitive market values are being achieved by Saskatoon Land, notwithstanding the inherent challenges noted earlier.

Figure 3) c) iv) 3)



And finally, when looking at the detail of each neighbourhood for the 2010 to 2015 period and comparing Saskatoon Land to the other significant developer(s) in the neighbourhood, with the exception of Parkridge - as demonstrated below in **Figure 3) c) iv) 4)** - there was a fairly direct correlation between the average lot price per land unit for Saskatoon Land and the average lot price per land unit for other vendors in the neighbourhood. The figures in parentheses indicate the percentage of lots sold in that neighbourhood attributable to the designated developer.

Figure 3) c) iv) 4) – note that in these figures, the designation "Other Major Developer" can refer to different developers dependent upon the specific neighbourhood.

* IA notes that for Parkridge, Saskatoon Land sold its lots in April 2015 through August 2015, while the other developer sold its lots between April 2010 and February 2012.

** IA notes that per Saskatoon Land, they had a high proportion of high-end lots in Rosewood. Per Saskatoon Land, in the Rosewood project Saskatoon Land's holdings were best positioned to take advantage of higher-end custom homes; therefore, lots were designed to capture this market segment resulting in higher lot prices and higher returns.

v) Market Factors & Measures: Emerging Trends in Real Estate Report (2016 & 2017)

The Emerging Trends in Real Estate 2016 report ("ETRE 2016"), published by IA and the Urban Land Institute, stated that "Calgary and Edmonton – and, to a lesser extent, Saskatoon – aside, the outlook for Canadian real estate remains generally stable. The ripple effect of the slowdown in primary industry and utilities could cause slower growth across all sectors of the Saskatoon economy. Lower demand for housing is likely to slow residential construction, and commercial construction is likely to proceed cautiously as well. Real estate volumes are projected to shrink in 2016 from 6.1% to 3.3%, and this is expected to slow activity in finance, insurance, real estate, and other parts of the service sector". In the Emerging Trends in Real Estate 2017 report ("ETRE 2017"), it included comments that "local construction activity dropped sharply last year, and is expected to fall – though much more modestly – again this year. The decline is almost entirely the result of softness in the residential housing markets; projects developed during the boom years are coming on stream and simply adding to unsold inventory. But the residential sector's doldrums are balanced by ongoing solid performance in other sectors".

According to the ETRE 2016 report, and in reference to the TD Economics "Canadian Regional Housing Outlook", the average home price in Saskatoon is ranked 7 of 9 (i.e., the 3rd lowest among the 9 cities included in the analysis - Vancouver, Toronto, Calgary, Ottawa, Edmonton, Montreal, Saskatoon, Halifax, Winnipeg) at $297,800 (up from $287,500 in 2013). The update in the 2017 report indicates that of the 10 cities surveyed (Quebec City was added), Saskatoon saw the largest downward change in housing prices at negative 2.8%, with another decrease of 1.7% forecast for 2017 (which would be the 3rd highest downward change in the 2017 forecast).

However, also according to the ETRE 2016 report, the "price to income ratio" (ratio of the metro-area average home price to the median income) is ranked 4 of 9 (i.e., the 4th highest in that same group of cities) at 4.5:1 (down one point from 4.6:1 in 2013). In the ETRE 2017 report and based on the TD Economics "Regional Housing Report", Saskatoon is ranked 4th again in terms of affordability, this time measured by mortgage payments as a percentage of average household income. According to the ETRE 2016 report, Saskatoon is ranked in the middle (i.e., 5 of 9 in 2016 and 6 of 9 in 2017) in terms of overall real estate prospects, which is a combination of investment opportunity, development opportunity, and housing opportunity. Saskatoon is ranked approximately 3 of 5 (or fair) in all 3 areas on a scale of 1 (abysmal) to 5 (excellent).

In terms of Saskatoon Land's reaction to the above factors, while at the present time there have been no changes made to the price of existing residential lot inventory, there has been a hold placed on future planned servicing for 2017 to avoid further build-up of inventory levels.

vi) Market Factors and Measures: Summary and Conclusion

IA analysed the residential lot pricing process in place at Saskatoon Land and the resulting residential lot prices through several lenses. IA notes that the significant presence of Saskatoon Land in the residential real estate market has an inherent influence on the prices in said market (i.e., as the owner of the largest market share it is inherently difficult to react to a market as opposed to leading that market). However, as a result of our analysis we observed no indicators that the residential lot prices of Saskatoon Land were inconsistent with other residential price trends within the City and furthermore, that all else being equal, the performance and trends of the Saskatoon residential market were similar to the performance and trends of the residential markets in other comparable municipalities (i.e. no discernible direct impact due to the presence of Saskatoon Land). Although there are indicators that perhaps the degree to which lot prices are rising is not quite directly correlated with the overall trends in housing, the discrepancy is minor. Arguably the most meaningful method of analysis to determine if there is a degree to which Saskatoon Land negatively impacts the market is not possible - to compare the Saskatoon market with Saskatoon Land present to the same market in the absence of Saskatoon Land. As this is not possible, all of the available market data included in sections 3) c) i) through 3) c) v) was assessed.

Procedure 4: Assessment of Policies

Explanation of Procedure

This procedure was designed to analyse Saskatoon Land policies and procedures to assess whether they are equitable and whether Saskatoon Land has the proper degree of discretion in the administration of lot sales, returns and fees. In addition to considering the results of Procedure 1, IA compared policies and procedures in place at Saskatoon Land against those in place at other municipalities with land development activities.

a) Equitability and Discretion

The purpose of City of Saskatoon Council Policy C09-001 "Residential Lot Sales – Contractor Allocations" is "to assist in fostering competition and diversity in the home building industry in Saskatoon by ensuring a fair and equitable allocation of City-owned lots to contractors". The design of the sale process, both lot draws and over-the-counter, requires the purchaser to be an Eligible Contractor with Saskatoon Land. The criteria for eligibility have been designed to ensure that, while a purchaser must demonstrate that they are capable of building homes with professional integrity and safety as a priority, there are limited restrictions on the number or size of homebuilders that can participate in the Saskatoon marketplace in order to ensure competition and diversity. This is in keeping with the intended purpose of Council Policy C09-001. Furthermore, the design of the lot draw process itself is driven from that City Council policy in terms of allocating lots to Eligible Contractors. For the most recent lot draw in 2015, a new tiered process was introduced (after stakeholder consultation) by which the most active Eligible Contractors were eligible to receive more allocations sooner in the process. This was introduced by Saskatoon Land in reaction to criticism received from high-volume builders as to the difficulty in being able to purchase desired lots in the preferred quantity and location through the previous lot draws held.

By instituting C09-001, City Council (through Saskatoon Land) have essentially designed an economic development initiative in which a variety of sizes of homebuilders can sustain operations in the Saskatoon marketplace as a result ofSaskatoon Land's lot draw process, in a fashion in which they may not otherwise be able to in the absence of Saskatoon Land. In this sense, while the practice of categorizing builders, and then permitting Category 1 and Category 2 builders to participate in the process of selecting residential lots, has received some criticism from members of the business community and from homebuilders, the policies and procedures in place at Saskatoon Land regarding the criteria for Eligible Contractors and the Contractor Allocations are equitable in that they are consistent with the design of Council Policy C09-001. A more restrictive policy in terms of eligibility requirements and the lot draw process would represent a fundamental shift from C09-001, as currently written, and would require Council and Committee direction.

In terms of discretion exercised with respect to the policies in place, IA has made specific observations and recommendations throughout Procedure 1 of this report where there is a need for Saskatoon Land to revisit their application of policy via internal procedures with the SPC on Finance to ensure that the discretion exercised is resulting in equitable application of the underlying policy. Within the Procedure 1 section of this report there are specific recommendations in each area that Procedure 1 analysed, including for lots sales and returns and fees, which address this point.

b) Comparison to Other Municipalities

Although the City of Saskatoon has a more prominent role in land development than exists in most other municipalities across Canada, the involvement of municipalities in land development is not uncommon. For example, for purposes of comparison IA utilised Edmonton, Red Deer, Lethbridge and Medicine Hat – other Western Canadian cities that have direct municipal involvement in land development and sales.

i) Illustrative Example – City of Lethbridge

As an illustrative example mirroring to some degree the City of Saskatoon's conscious role in land development since the 1950's, prior to 1968 the City of Lethbridge came into possession of parcels of land, often through tax recovery, and since 1968 the City of Lethbridge has increased its involvement in the physical development of Lethbridge through land banking ("assembly and accumulation of large areas of land and the holding of those areas for a period of time so that land can be converted from raw land to serviced lots for development in an efficient and systematic manner and according to market demand and to encourage the integrated layout and subdivision of sizeable tracts of land in one continuous operation") and land ownership and the development of City-owned land for urban use. In the 1970's, approximately 52% of all land developed for residential purposes was owned by the City of Lethbridge. In May of 1976, Lethbridge City Council passed a resolution "re-affirming its policy that it is, and intends to continue to be, in the land development business". The City of Lethbridge's stated reasons for land banking are to:

- to provide a supply of serviced land for development;
- to more directly influence development of land so as to achieve City policies in the development of Lethbridge as a whole;
- to have more direct influence in producing an attractive and efficient living environment through land ownership and development, achieved by neighbourhood and subdivision design and by influencing the types of development through conditions of sale;
- to provide competition to private developers and to keep the price of lots down; and
- to retain, for the public, the incremental value of land (the difference between the purchase price of raw land and the price of the same land sold as lots or parcels after deducting the costs of servicing, subdivision design, holding costs, etc.).

A report commissioned in 1977, and continuing to form the fundamentals of the City of Lethbridge's land development and sales activities today, recommended that the City of Lethbridge commit an annual supply of 25% to 50% of all land to be developed for residential purposes and at all times to have at least a 10-year supply of land in reserve. It also suggested that land be sold at a price lower than the current market value, thus reducing the housing cost for the ultimate home buyer.

ii) Comparisons and Recommendations

IA compared policies and procedures in place at Saskatoon Land against those in place at other municipalities with land development activities. Included below are examples of policies and procedures from other municipalities based on recent sales activity in those municipalities. IA noted that other municipalities have additional flexibility in that policies and procedures sometimes vary from year to year and even can vary from neighbourhood to neighbourhood, allowing the municipality to make adjustments at given points in time (for example, the elimination of construction completion deadlines for certain neighbourhoods in Red Deer). This may be practical in these other municipalities as a result of their land development and sale activities being less significant than those at Saskatoon Land. In our view, given the size and scale of Saskatoon Land's operations, the fashion in which Saskatoon Land operates is preferable in that there are specific overlying Council Policies to be complied with to ensure consistency from sale to sale and if there is a need for adjustment, Saskatoon Land can make that request to the SPC on Finance.

Comparisons of Saskatoon Land to Other Municipalities

Policy/procedure	Lethbridge	Medicine Hat	Red Deer	Edmonton	Saskatoon
Deposits and Other Related Fees	10% of lot value due at the time of lot selection plus "Design & Development Guideline" deposit to enforce the design and development guidelines.	10% of purchase price.	Application fee of $5,000 is required to enter the lot draw, which applies to the purchase price but is forfeited if the applicant selects a lot but does not enter into a Land Sale Agreement. Security deposit of $10,000 is required at time of Land Sale Agreement. Also an architectural security deposit, refunded upon final inspection and completion of landscaping.	Non-refundable qualifying deposit of $5,000, refundable performance fees of $15,000 and balance of 15% deposit.	13% of purchase price.
Timeline to Pay	Purchases must be completed within 90 days for individuals (120 days for builders) or 10% deposit is then forfeited and lot must be paid prior to permit.	Purchasers must pay the balance of the purchase price within 60 days of the Land Sale Agreement or deposit forfeited.	1/3 of the purchase price less application fee due within 15 days of completion of servicing, 1/3 within 4 months of sale, and 1/3 within 8 months.	Balance of lot price if due within 3 months and overdue payments accrue 18% interest in the outstanding balance.	Unpaid balance is payable 8 months from the date of purchase. First 8 months incur interest at the prime rate and after 8 months prime plus 5%.
Lot Returns	Not specifically contemplated in available policy and/or process documents.	Within 60 days of the Land Sale and deposit is forfeited to City. If return is in conjunction with another purchase, the 10% deposit will not be forfeited.	Entitled to refund of the portion of the purchase price paid under the agreement, less the greater of a) $5,000 application fee or b) an amount equal to 10% per year of the total purchase price multiplied by the # of days elapsed from the date of the agreement OR option to re-purchase the property for 80% of the original purchase price and/or forfeit deposit.	Not specifically contemplated in available policy and/or process documents.	Charged "rent" at a rate of 1% per month of the selling price for period of possession. Refund is equal to the difference between the 13% down payment and the rent amount.

Time Frame to Build Requirements	Construction on the home must be completed within 12 months of purchasing the lot. Landscaping must be completed within 18 months of purchasing the lot to a standard consistent with the amenities and aesthetics of the applicable neighbourhood.	Construction must commence no later than 18 months from the date of the Land Sale or pay extension fees (advance payments ranging from 0.5% to 1.0% of the purchase price per month). If not, the Land Sale may be terminated. Construction must be completed no later than 30 months from the date of the Land Sale or pay extension fees of 0.5% per month.	Construction must commence within 12 months of the Land Sale. In order to start construction, the balance of the purchase price must be paid. If construction does not start within the required time frame, a refund is processed as per Lot Returns section above. Construction must be completed no later than 18 months from the sale date.	Construction must commence (i.e., footings and foundation) within 7 months of possession date. Construction must be completed within 15 months and inspection performed, at which point performance fee is returned to the purchaser.	Purchasers are required to build a fully completed residence by obtaining a clear Final Building Inspection within 3 years, commencing upon the date of the Agreement for Sale. Extensions may be granted for an additional 12 months provided that certain conditions are met.
Other	Lethbridge Land actively selects builders. Three specific builders were chosen for the Crossings development. 50% of lots were sold to selected builder group, with the remaining 50% publicly available.	No other items noted.	Any individual, business or charitable organization may make application to purchase a lot via lot draws. Contractors are required to have only a City of Red Deer General Contractor's License and a GST number.	No other items noted.	No other items noted.

From the comparisons noted in the table above, we note that Saskatoon Land may consider the following options based on practices in place at other municipalities:

- RECOMMENDATION #15 – IA recommends that Saskatoon Land consider increases to the types (i.e., application fees, qualifying deposits, design/development/architectural deposits and performance fees) and amounts of deposits and related fees required in order to facilitate entry into the lot draw and/or the sales agreement itself.

- RECOMMENDATION #16 – IA recommends that Saskatoon Land consider reducing the timeline to pay and/or the interest rates and/or the consequences of non-payment. Other instances were noted of much stricter timelines to pay in certain municipalities (i.e., 2, 3 or 4 months), much higher interest (i.e., 18%) and much stricter consequences of non-payment (i.e. forfeit of deposit and cancellation of sales agreement). IA notes than any tightening of the financial restrictions would have to be carefully considered as they might restrict the number of contractors able to purchase lots from the City of Saskatoon if too restrictive (although this policy could be used to strike a desirable balance in that regard). Additionally, current market conditions and payment terms being offered by major competitors could also factor into this policy choice. IA notes that this recommendation should be read in conjunction with recommendations #8 and #9 on page 14 regarding outstanding accounts.

- RECOMMENDATION #17 – IA recommends that Saskatoon Land consider implementing changes to the lot return calculations, for example with reference to those utilised by the City of Red Deer.

The "Other" category noted in the comparison above was included to demonstrate the degrees to which the municipalities referenced are allowing contractors to participate in the land development activity in the municipality. For the City of Red Deer, any individual, business or charitable organization may make application to purchase a lot via lot draws with little in the way of prerequisites, whereas for Lethbridge Land, they are actively involved in selecting builders – Saskatoon Land falls in-between as it is open to any individual or business; however, there are more criteria for eligibility that the individual or contractor would be required to meet before being permitted to make a purchase.

Lethbridge Land indicates on its website, for its recent Crossings development, that it "is very selective when it comes to choosing builders in any of our communities…the builders we selected for Crossings are defined not only by their proven track record of excellence in design and environmental sustainability, but also by their vision". In the Crossings development, three specific builders were chosen and 50% of the lots were sold to the selected group of builders and the remaining 50% were made available to the public. This provides the option for an individual to either purchase a lot directly from Lethbridge Land (and to then select a builder themselves) or to design and build a home with one of the pre-selected builders. The stated advantage of buying the lot directly from a pre-selected builder is being "assured the lot you choose will not need to go through the process of the lot draw". The stated limitations of buying the lot directly from a pre-selected builder are needing "to build your home with the builder you purchased the lot from…this gives you less choice and flexibility…on the other hand, we select only the finest builders in our community and you can work closely with your builder to customize your home to fit your needs".

We do not recommend that Saskatoon Land become actively involved in selecting builders, but note this with respect to Lethbridge Land as it is indicative of the varying degrees to which different municipalities are administering their land development activities. In this case, City of Saskatoon Council Policy C09-001 is quite contrary to the example provided above in terms of allowing for a high degree of contractors to participate in each development.

c) Summary of Results from Procedure 4

With respect to equitability and discretion, there are detailed comments provided in the recommendations in Procedure 1. Overall, IA found that the policies and procedures in place are equitable in light of the overarching City of Saskatoon Council Policies that govern Saskatoon Land; however, recommendations were made throughout Procedure 1 with respect to areas where Saskatoon Land and the SPC on Finance should review to ensure equitability across the contractor base and/or eliminate or more clearly define appropriate discretion in some instances.

With respect to comparisons to other municipalities, we provided one illustration of a municipal land development entity operating along similar lines as Saskatoon Land and formed three specific recommendations for Saskatoon Land to contemplate based on our examination of policies and procedures in place at other municipalities. In some cases, these recommendations also correspond to items noted during Procedure 1.

Procedure 5: Privacy, Access to Information and Financial Reporting

Explanation of Procedure

This procedure was designed to analyse the application of the Privacy and Access to Information Policy to Saskatoon Land to assess whether all information that should be made public, as appropriate for a municipality, is being made public for the sake of transparency for the stakeholders of Saskatoon Land - the taxpayers of Saskatoon. Saskatoon Land follows the "Local Authority Freedom of Information and Protection of Privacy Act" for accessing records held by the City of Saskatoon. Currently, financial reporting is limited to that contained within the Saskatoon Land "Annual Report" and within the City of Saskatoon's "Annual Report". The procedure will also take into consideration information made available publicly by other municipalities with land development operations.

a) Overarching Context Regarding Transparency

The comments in this section regarding transparency are taken in the context of the following:

- The City of Saskatoon indicates in its annual report and other published documents that it has an "ongoing commitment to accountability, transparency, credibility and clarity in financial reporting", that it aims to "improve transparency and decision-making by providing City Council and citizens with more information about where City funds are used", and that it is "open, accountable and transparent, particularly when it comes to the resource allocation and collection decisions we make".

- The Government Financial Officer's Association (GFOA) released a resource in February of 2006 titled "Conforming to Governmental Accounting, Auditing and Financial Reporting Standards" which relates primarily to the need to maintaining an adequate accounting system to enable municipalities to produce timely audited financial information. Overall the GFOA is committed to "transparency and reliability of public sector financial reports" and "promoting the highest standards of accounting, auditing and financial reporting".

- The Cities Act – Chapter C-11.1 of the Statutes of Saskatchewan, 2002 - contains an overarching statement in 3(2)(d) regarding the overall purpose of the Cities Act being "to ensure that…cities are accountable to the people who elect them and are responsible for encouraging and enabling public participation in the governance process". 155(1) of the Cities Act contains a requirement for an audited financial statement to be included in the public accounts that is prepared in accordance with Public Sector Generally Accepted Accounting Principles.

b) Local Authority Freedom of Information and Protection of Privacy Act

The "Local Authority Freedom of Information and Protection of Privacy Act" enables any person to apply for access to records containing information processed by or controlled by the City of Saskatoon. Written documents, computer records, photographs or information stored by any other means are accessible under the Act. The Act does exempt certain types of records from the application for access. For example, records that contain personal information about another individuals, closed meetings of Council, and law enforcement investigations are not accessible. If access to a record or part of a record is refused, the Provincial Information and Privacy Commissioner can be asked to review the decision. If the Provincial Commissioner reviews the matter and there is still not satisfaction, the decision to refuse access to the record can be appealed to the Court of Queen's Bench.

IA obtained from the City of Saskatoon – City Clerk's Office information regarding Freedom of Information requests pertaining to Saskatoon Land. There were five such requests on file from the period January 1, 2012 to December 31, 2014, and there were none on file for either calendar 2015 or up to July 31, 2016. IA notes that all five requests on record were replied to with the information requested being provided.

c) Financial Reporting by Saskatoon Land and the City of Saskatoon

Currently, there are two available sources of financial and operational information regarding Saskatoon Land: the Saskatoon Land Annual Report and to a lesser extent, the City of Saskatoon Annual Report. The Saskatoon Land Annual Report includes details on sales plus selected information regarding the net proceeds on sales in selected new neighbourhoods for various City uses since 2007.

The City of Saskatoon Annual Report and the audited financial statements contained therein do not contain detailed financial information regarding Saskatoon Land. Within the audited financial statements, there is a line item for "Contributions from developers"; however, this line item reflects the net land sales (gross sales price less cost of land) and cost of land is not reflected separately in planning and development expenses. Saskatoon Land is a bit of an anomaly in the City of Saskatoon's financial reporting in that it is essentially a for-profit business, but since it is not separately incorporated and doesn't qualify as a government business enterprise, there is far less in the way of required reporting under PSAS than if that were the case. Procedure 6 will further explore this notion in terms of the structure of Saskatoon Land, both within the City of Saskatoon and from a governance perspective. If Saskatoon Land qualified as a government business enterprise, it would require its own separate financial statements and have further presentation and disclosure requirements within the City of Saskatoon's audited financial statements (i.e.; akin to the Library, Mendel, TCU Place, and SaskTel Centre). The fact that it is a for-profit operation that competes with other private enterprises in the City of Saskatoon would not (and does not) preclude it from having to apply the existing financial reporting requirements, despite the fact that there is sensitivity regarding items such as the margins on land sales, the cost of servicing, and the overall return on investment. In fact, one could argue that from a stakeholder's perspective it increases the importance of financial reporting in those areas and from the City of Saskatoon and Saskatoon Land's perspective, increased financial transparency could actually be beneficial in terms of demonstrating that it is "providing returns at competitive rates of return on investment" and "operating on a level playing field with other land development interests in the City".

Public Sector Accounting Standards (PSAS) require segment disclosures – the objectives of disclosing information regarding segments are as follows per PSAS 2700 "Segment Disclosures" Paragraph .05 (a) through (e):

(a) Help users of the financial statements identify the resources allocated to support the major activities of the government;
(b) Help users of the financial statements make more informed judgements about the government reporting entity and about its major activities;
(c) Help users of financial statements better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations;
(d) Enhance the transparency of financial reporting; and

(e) Help users of the financial statements better understand the performance of the segments and the government reporting entity.

There is significant room for professional judgement within PSAS regarding segmented reporting and the fashion in which segments are selected. The City of Saskatoon's current policy for segmented reporting does not include Saskatoon Land, however certainly could at Administration's discretion. One of the factors to be considered in identifying segments is the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government. The current basis for segmentation per note 1 of the audited financial statements is: capital and operating services for both utilities and the general City programs, plus information on the Library, Mendel, TCU Place and SaskTel Centre.

Examples are provided below of the financial reporting by peer municipalities with municipal land development activities that indicate a level of transparency in both the activities reported directly by the municipal land departments and by the municipalities themselves in their financial statements and annual reports that exceeds that current in place for Saskatoon Land. These examples specifically exclude municipal development corporations (which are addressed in Procedure 6) and focus only on municipalities with land development activities that are conducted within an unincorporated department/division/branch of the respective municipality akin to Saskatoon Land's position in the City of Saskatoon. The municipal development corporations discussed in Procedure 6 each have their own detailed annual business plans and full annual reports containing separately audited financial statements.

Financial Reporting at Comparable Municipalities

Municipality	Land Reporting	Audited Financials	Other Information
Edmonton	"Property Sales and Acquisition" annual report, which includes information on performance measures but lacks detailed financial data. However, the audited financials and other information contain significant financial data by which to evaluate the municipal land operations.	Includes "Land Enterprise" as segment, encompassing land development and municipal use property activities. This includes Edmonton's role as developer in the areas of acquisition, development and land sales activities. Within this segment is reported "User fees and sale of goods and services", which represents land sales as well as "Materials, good and utilities", representing the cost of land sold. These are distinguished from operating and capital developer and customer contributions.	Full detailed 10 page budget with detailed revenue, costs of land sold, expenses, strategic goals, cost drivers, service standards, performance measures and dividend rates outlined for stakeholders. Includes discussion of gross margin for external land sales and discussion of impact of timing and absorption and market trends on the margin and several other explanatory notes to assist the user of the financial information in understanding the financial position and results. Provides clarity on the split between land development activities and municipal use land.

Red Deer	An annual report on the land banking activities is prepared for City Council; however, it is not made publicly available.	"Subdivisions, Land and Development" included as segment, which "reports activities related to the development of land and infrastructure for use by the City or for resale". Within this segment is reported "User fees and sale of goods and services", which represents land sales as well as "Material and supplies", representing the cost of land sold. These are distinguished from operating and capital developer and customer contributions. Financial statements also include detail of land inventory split between residential and industrial and commercial and between land held which is ready for sale and land held not ready for sale.	None noted.
Lethbridge	None noted.	Provides information on land sales within broader "Development Services" segment, which includes "Economic development, planning, and public housing and land development". Specific detail is included on the sale of land within revenue for the "Development Services" segment as well as the costs associated with those land sales within expenses for the "Development Services" segment.	None noted.
Medicine Hat	Detailed "Land and Business Support" annual report includes KPI's (i.e. ROI's hurdle rates and cost of capital) and financial statements. Specifically discusses the ROI, hurdle rates and cost of capital achieved in comparison to target. Indicates that from 2013 to 2015 the municipality had 51% of the available zoned, serviced and subdivided single family and duplex lots available in Medicine Hat.	Includes "Land and Properties" in segment information, encompassing land development and municipal use property activities. This includes Medicine Hat's role as developer in the areas of acquisition, development and land sales activities. Also includes a detailed "Financial and Statistical" schedule dedicated solely to "Land and Properties" segment.	None noted.

Calgary	Office of Land Servicing & Housing (OLSH) produces a detailed annual report with specific governance tie-in to 100-year vision, 60-year municipal development strategy, 30-year transportation strategy, 10-year sustainability strategy, 10-year economic development strategy, and 10-year industrial land strategy. The annual report includes detailed performance measures, both operating and financial.	Land sales revenue is included in sales of goods and services and real estate services expenses are included in cost of goods sold. Full details of the separate municipal land development corporation's financial position and results of operations are included in the note disclosure. Disclosure of revenue by source clearly distinguishes real estate sales and expenses by function clearly distinguishes real estate services.	New capital planning process was developed to refine how OLSH projects flow from ideas to execution, ensuring transparency and that strategic objectives are being met. The process was designed to ensure sound decision making through increasing market knowledge, forecasting land inventory and identifying the latest trends or changing needs. The process takes into account OLSH's unique position of delivering environmental, social and economic benefits.

d) Conclusion and Recommendations

Saskatoon Land and the City of Saskatoon are responding to all FOI requests relating to Saskatoon Land. However, while in compliance with the baseline requirements of accounting and financial reporting standards applicable to the City of Saskatoon, the level of transparency in the Saskatoon Land and City of Saskatoon financial reporting does not appear to a) meet the City's own stated standards with respect to transparency or b) compare to the good practices in transparency, both operational and financial, in place at certain other similar municipalities. Based on the existing financial reporting in place, there is no ability for a user of the financial information to glean any information regarding the operations of Saskatoon Land beyond a) total sales of Saskatoon Land and b) operating costs of Saskatoon Land and, therefore, no ability to assess the financial performance of Saskatoon Land. In light of this, we recommend the following:

- RECOMMENDATION #18 – IA recommends that, in light of existing PSAS guidance regarding segmented reporting and segmented reporting practices in place at comparable municipalities with land development activities, the City of Saskatoon examine their existing policy on segmented reporting to consider the inclusion of Saskatoon Land as a unique operating segment.

- RECOMMENDATION #19 – IA recommends that, in light of existing transparency of land development budgeting in place at the City of Edmonton, the City of Saskatoon examine their existing budgeting to include further details on its land development activities.

- RECOMMENDATION #20 – IA recommends that, in light of existing supplementary financial information produced by Land and Business Support in Medicine Hat and the Office of Land Servicing & Housing in Calgary, Saskatoon Land examine additional financial reporting that could be incorporated into its annual report to increase its transparency and meaningfulness to stakeholders.

- RECOMMENDATION #21 - IA recommends that Saskatoon Land consider publishing the Eligible Builder's List on an annual basis, in a fashion that is publicly available, or more limited to the eligible builders group themselves. The recommendation is for an annual publication as opposed to a monthly publication as the list itself does not change during the course of a year, but rather is impacted by those builders who are suspended from the list by virtue of outstanding accounts or build times in violation of policy. These updates throughout the year could also be made available in a transparent fashion.

Procedure 6: Business and Governance Structure

Explanation of Procedure

This procedure was designed to analyse the current business and governance structure of Saskatoon Land to comment on the appropriateness of the current structure in place and to identify potential alternative business and/or governance structures that might add value to the City's land development efforts and best manage risk exposure.

a) Structures in Place

Currently Saskatoon Land is a department within the Asset & Financial Management division. Other comparable municipalities that have similar structures in place include:

- City of Edmonton (reorganized in 2016) – "Real Estate and Housing" department is in the "Sustainable Development" division;
- City of Red Deer – "Land and Economic Development" department is in the "Planning Services" division;
- City of Lethbridge – "Planning & Development Services/Lethbridge Land" department is in the "Development Services" division; and
- City of Medicine Hat – "Land and Business Support" department is within "Development and Infrastructure" division.

The inherent challenges in this arrangement (i.e., a for-profit municipal land development operation within the municipality's organisational structure are a) the avoidance of the appearance of, or actual occurrence of, conflict of interest with other City departments (i.e., Planning and Development) and b) the lack of a governing body that is fully knowledgeable in the subject area (i.e., a Committee comprised of individuals with no direct experience in land development or sales). The latter is problematic in terms of the lack of ability to challenge decisions made by the department and the inability for the department itself to be challenged and directed by the governing body to whom they report.

b) Alternative – Municipal Development Corporation

One of the primary methods of dealing with both challenges could be to create a municipal development corporation, a separate government business enterprise (akin to what is currently in place in the City of Saskatoon for the Mendel, TCU Place, and SaskTel Centre) with its own separate governing body (i.e., Board of Directors) and a less direct relationship with the City of Saskatoon. Examples currently in place in Western Canada are the Surrey City Development Corporation and the Calgary Municipal Land Corporation. The table below (beginning on the next page) provides pertinent details related to both of these municipal development corporations.

Municipal Development Corporations – Surrey and Calgary

	Surrey City Development Corporation (SCDC)	Calgary Municipal Land Corporation (CMLC)
Timeline and Incorporation Details	Incorporated in 2007 – established on April 24, 2007 as a wholly-owned subsidiary of the City of Surrey. Province of British Columbia approved the incorporation in 2007 under the BC Business Corporations Act. Corporation classified as "other government organization" as not yet self-sustaining. Exempt from tax under 141(a) of Income Tax Act. City of Surrey exercises control as the sole shareholder through a partnering agreement and a shareholder agreement which outlines SCDC's directives and authorities and the City's involvement in the ongoing operation and governance of the corporation.	Incorporated on February 22, 2007 as wholly owned subsidiary of the City of Calgary. On July 5, 2007, pursuant to Alberta Municipal Government Act and Control of Corporation Regulation AR284/2003, the Provincial Minister of Municipal Affairs approved, via Ministerial Order 162/07, the City of Calgary as sole shareholder pursuant to Section 250(2) of the Municipal Government Act. The corporation is not taxable as 100% subsidiary of the City of Calgary. • 2004 – Council directs administration to create strategy • 2005 – Council approves creation of special purpose vehicle and directs Administration to assist with formation including appointment of Board. • 2005 – Consultant hired to recommend appropriate governance/organizational structure. • 2006 – Appoint 4 individuals, including Chair, to the Board. • 2007 – Articles of incorporation signed and bylaw came into force; adopted Terms of Reference. • 2007 – Council as shareholder approved initial business plan and shareholder agreement signed.
Mandate	Broad powers to advance commercial, industrial, institutional, and residential development of the City, either on its own or in public or private partnerships.	To achieve the City's objectives for urban densification and community renewal, infrastructure investment and place making. Guiding principles are to redevelop, implement and activate public infrastructure to meet the needs of the community and the City of Calgary as sole shareholder and manage the investment in land and infrastructure for optimal financial return.
Leadership	President and CEO / Chief Financial Officer	President and CEO, SVP Strategy and Business Development, VP Projects, Director of Finance and Corporate Services, Director of Marketing
Governance	5 or 6 independent directors / 2 directors represented by City of Surrey officials (City Manager and Director of Finance). Appointment of Board is sanctioned through City Council. Separate governance committees for SCDC include Governance and Human Resources, Compensation Committee, Audit & Finance Committee.	8 independent directors & Mayor & President/CEO. Board of Directors are to have skills and experience in government relations, finance, legal, real estate, land development, engineering/construction, and communications/public relations. Separate governance committees for CMLC include Corporate Governance Committee, Audit Committee, Compensation & Human Resources Committee and Environment, Health & Safety Committee.

	Eligible Board candidates should have a range of experience in real estate, property management, law, land development and financial management. Property management includes real estate development, real estate financial/treasury, market knowledge, construction and project management, risk management, financial expertise and investment experience. Important that Directors are chosen so as to minimize circumstances where individual members would be required to withdraw from discussions due to conflict of interest.	"Calgary City Council has placed a great deal of trust in CMLC...CMLC recognizes that a sound and effective corporate governance system and a commitment to accountability and transparency are essential to its continued success. CMLC is committed to the principles of good governance and we employ a variety of policies and practices to manage corporate governance. The Board of Directors is responsible for the overall stewardship of CMLC, approves all significant decisions that affect the Corporation and reviews the results". "The relationship between CMLC and the City of Calgary is governed by the Unanimous Shareholder Agreement. As sole Shareholder, the City of Calgary has the exclusive right to appoint the directors, appoint the auditor for CMLC, amend the articles of incorporation and write the bylaws of CMLC".
Public & Stakeholder Accountability	Separately audited financial statements and annual report. "In our commitment to transparency, SCDC provides updates on ongoing projects, business matters, as well as financial results annually".	"CMLC strives to achieve an optimum level of public and stakeholder accountability. The processes involved in achieving this level of accountability include: an annual general meeting, attendance at an annual meeting with the City of Calgary Audit Committee, a published annual report including audited financial statements, regular meetings with key stakeholders, regular informational open houses for the public at large, a multi-year corporate and financial plan, an annual business plan including budget and capital requirements, an annual marketing and communications plan and detailed accounting systems."
Code of Conduct	Separate code of conduct exists for employees and directors that includes very specific and detailed conflict of interest policy, as well as explanations of what constitutes a conflict.	"CMLC has adopted a code of business conduct and conflict of interest policy. All employees sign an attestation indicating knowledge of and compliance with this code and policy".

c) Tax Considerations for a Municipal Development Corporation

As noted in the table above, both SCDC and CMLC are non-taxable entities. A municipal development corporation established as a municipally-owned corporation is exempt from corporate income tax under 149(l)(d.5) of the Income Tax Act to the extent that not less than 90% of the capital stock is owned by the municipality and at least 90% of the income earned by the corporation is derived from property within the geographical boundaries of the municipality. Although the City of Saskatoon would have to undertake research to ensure the outcome, based on the current activities of Saskatoon Land it would appear that a municipal development corporation for Saskatoon Land would be exempt from corporate income taxes.

d) Implications of Implementing a Municipal Development Corporation

The creation of a municipal land corporation would address many of the inherent challenges currently faced by Saskatoon Land as identified in section a) of Procedure 6 on page 43, in addition to assisting with the practicality and meaningfulness of implementing many of the recommendations contained within this report.

To be clear, for purposes of this report and considering what would be most impactful in terms of enhancing the governance structure of Saskatoon Land, managing risk exposure, and adding value to land development efforts, this report contemplates a municipal land development corporation that operates with a similar scope and mandate to the current Saskatoon Land department within the City's organizational structure and would encompass the City's entire land development operation. There is further ability to create separate and distinct municipal development corporations which are confined to single projects or development types, which is a separate matter entirely and beyond the scope of this report. City Administration has access to additional information and studies on the topic of municipal development corporations which, when supplemented by this report, will allow for further detailed consideration of this option by the Administration and the SPC on Finance.

Considering each of the Procedures conducted within this report, the creation of a separate corporation and governing body could have the following impacts:

- Procedures 1 and 4 (Policies) - would not inherently enhance the ability of Saskatoon Land to comply with policy, although it would allow for new thought to be put towards development of policy that is freed from the constraints of being a department of the City and allow for the business of Saskatoon Land to be conducted more comparably to the private land developers in Saskatoon. Put simply, Saskatoon Land would have the ability to operate with increased discretion and to make decisions that are more aligned with business needs than policy. Whether this is a pro or a con depends on SPC on Finance's opinion regarding whether increased discretion is a positive for Saskatoon Land.

- Procedure 2 (Conflict of Interest) - would not inherently increase Saskatoon Land's awareness of conflict of interest or ability to comply with conflict of interest requirements. However, although not specifically contemplated by this report, it would certainly reduce perceived or actual conflicts between Saskatoon Land and other related functions of the City of Saskatoon (i.e. Planning and Development).

- Procedure 3 (Lot Prices and Lot Pricing Process) – would allow for increased oversight of lot prices and the lot pricing process in general by having a qualified Board of Directors in place to challenge and direct the pricing being proposed by management. This would assist in bolstering the actual process in place and may also assist in addressing perceived issues in the community with the lot pricing that result from Saskatoon Land's current position as a department of the City.

- Procedure 5 (Financial Reporting) – would allow for, and in fact would require, increased financial transparency by Saskatoon Land including the production of a separate financial statement. The impact of implementing a municipal development corporation is perhaps greatest in this area.

- Procedure 7 (Investment Risk) – would allow for increased oversight of investment risk by having a qualified Board of Directors in place to assess the portfolio of holdings on a regular basis and challenge and direct management. This would assist in bolstering the actual process in place and may also assist in addressing perceived issues in the community with the investment risk being undertaken by Saskatoon Land.

An overall benefit to the City and SPC on Finance of implementing a separate governing body for Saskatoon Land, aside from being able to pursue individuals for that Board that are uniquely qualified, is that it would then free up a significant portion of the SPC on Finance's agenda that is currently dedicated to matters involving Saskatoon Land.

At face value, perhaps the greatest potential challenges involved with pursuing a municipal development corporation are the recruitment of individuals with relevant experience and a lack of inherent conflict of interest (i.e. competing land developers in the Saskatoon market). This is a challenge that would not be unique to Saskatoon Land and is experienced by other municipalities that have gone in this direction. In order to overcome this challenge, there must be a willingness to recruit outside of Saskatoon, from elsewhere in the Saskatchewan market or outside of Saskatchewan. It is quite common for Boards to include one or several individuals not located in the city that the company is headquartered in or has its primary operations, and who belong to the Board by virtue of their relevant expertise in the company's industry.

e) Next Steps and Thoughts for the SPC on Finance

While the majority, if not all, of the recommendations in this report could be achieved in part or in full in the absence of a municipal land corporation, the creation of a municipal land corporation to house Saskatoon Land would assist with practically and meaningfully implementing several of the recommendations made in this report. It would create an increased level of independence from the City of Saskatoon and would require increased financial transparency and a separate governing Board with relevant expertise in place, which is currently not being achieved by having the SPC on Finance as the overseer of Saskatoon Land. Establishing a municipal development corporation is a significant undertaking and the cost and effort involved would need to be carefully weighed against the benefits, particularly in light of broader economic challenges the City is facing and governance models being studied in 2017.

As noted in the table above, it would typically require at least a 3-year period of time between the decision by the SPC on Finance and City Council to formally pursue this path and the ability to implement. During this timeframe, significant preparation would be required to ensure that the structuring of the corporation would continue to allow for non-taxation of profits, that adequate financial systems are in place to a) facilitate the transfer of all financial information from the City of Saskatoon to the municipal land corporation and b) allow for the municipal land corporation to properly and accurately account for its activities, and that a sufficiently qualified and independent Board of Directors would be available to serve in a governance role.

The ongoing discussions in the City of Edmonton regarding a potential municipal development corporation are relevant in that they demonstrate potential industry concerns with that model. However, there are elements of Saskatoon Land's mandate that present similar concerns regardless of whether the land development operations occur as a department of the City of Saskatoon or as a more independent corporation. A detailed cost/benefit analysis and consultation with industry will be necessary if Administration and SPC on Finance wish to seriously explore this option.

Saskatoon Land

Procedure #7
Risk Assessment

May 23, 2017

pwc

Contents

Scope of Work

PwC was retained by the City of Saskatoon to perform certain procedures relating to a review of the City's Land Division (Saskatoon Land).

Scope of Mandate

- The overall scope of the engagement consists of a number of specific items including:
  - Assessing whether the City of Saskatoon's Land Division ("Saskatoon Land") is adhering to certain policies regarding the administration of lot draws, over the counter sales, maintenance of the Eligible Builders' List and adherence to the time frames surrounding lot purchases and construction timelines;
  - Analyzing Conflict of Interest Guidelines to assess whether adequate safe guards exist;
  - Analyzing lot prices and the lot pricing process to assess whether Saskatoon Land is competitive and responding to the market;
  - Analyzing land policies and procedures to assess whether they are equitable;
  - Analyzing the Privacy and Access to Information utilized to assess whether information that should be made public is being made public;
  - Analyzing the current business and governance structure; and
  - Conducting a risk assessment of the operations of Saskatoon Land to assess whether investments are timely and do not overexpose the citizens of Saskatoon to unnecessary investment risk.
- The purpose of this portion of the Report is to provide commentary on Saskatoon Land's operations to evaluate whether investments are timely and do not overexpose the City to unnecessary investment risk.

Procedures Performed

- Analyzed background information describing Saskatoon Land and its operations, including its corporate mandate, current land holdings, historic transaction activity, operating policies and procedures, approval processes and regulations.
- Conducted interviews with Saskatoon Land to better understand its real estate activities, policies, reporting and approval processes.
- Reviewed information describing the relationship between Saskatoon Land and the City's Land Development business.
- Travelled to a subset of properties owned by Saskatoon Land to view a portion of the portfolio.
- Reviewed information detailing total returns.
- Conducted research to assess comparable returns, including comparable returns realized by other municipal land corporations/ entities and private sector developers.

Background

Saskatoon Land was established in 1954, formalizing the City's involvement in the land development business and actively acquiring land for future development.

History

- The City of Saskatoon has been active in the business of developing and selling land since the 1920s, at a time when numerous properties were obtained through tax enforcement.
- In 1954 the City formalized its involvement in the land development business by actively acquiring land for future development. This land-banking function was unique among municipalities and is noted as being one of the more extensive operations of its kind.
- Since the 1950s, the City, through Saskatoon Land, has played a significant role in developing Saskatoon communities, and more recently, supplying serviced industrial land to accommodate growth.
- Per its Annual Report, Saskatoon Land (Asset and Financial Management Department) supports the building of innovative communities which provide valued amenities, enhanced quality of life, community identity, and lasting value to the investors and families that choose Saskatoon Land developments.

Core Mandates

- The core mandates of Saskatoon Land includes:
  - providing an adequate supply of residential, institutional and industrial land at competitive market values;
  - providing innovation and leadership in design for new growth;
  - ensuring timely and financially responsible acquisitions of all land requirements for the Corporation's various capital projects;
  - ensuring a sufficient long-term supply of future development lands for the City's Land Development business line;
  - assisting in the attainment of orderly urban growth;
  - providing financial returns at competitive rates of return on investment to the City for allocation to civic projects and programs;
  - coordinating and overseeing the ongoing maintenance and leasing of all City-owned future development lands; and
  - operating on a level playing field with other land development interests in the city.

Operations

- Saskatoon Land is comprised of 18 staff members.
- In developing land and offering it for sale, Saskatoon Land staff undertake the following tasks:
  - examine the demand for institutional, commercial, industrial and residential land; and
  - arrange for the appropriate quantity and type of land to be designed and developed for eventual sale based on market assessments.
- In servicing land, Saskatoon Land works with staff at the Saskatoon Water and Construction and Design Divisions within the Transportation and Utilities Department who provide engineering design, drafting and project management during the servicing phase of the land development process.
- While a municipal department, Saskatoon Land is mandated to operate on a level playing field with other private sector developers, and is subject to the same procedures and regulations that govern the land development process within the City.

Saskatoon Land operates pursuant to a number of Council Policies which outline how it conducts its business. In addition, Saskatoon Land also undertakes additional processes, including market due diligence, to report on its operations.

Council Policies

- Saskatoon Land operates pursuant to a number of Council Policies which govern how it conducts its business. Such Policies include:
  - **C09-001** which details how Saskatoon Land will foster competition and diversity in the home building industry to ensure a fair and equitable allocation of City-owned lots to contractors;
  - **C09-006** which details how Saskatoon Land is to market City-owned residential lots to contractors and individuals;
  - **C09-009** which outlines the incentives program for industrial land to assist in attracting new industry to the city and to encourage the expansion of existing industries;
  - **C09-010** which details how the City may provide financial incentives to assist residential homebuilders construct and operate show homes on property made available through the City's Land Bank;
  - **C09-015** which details how the City may pay real estate commissions on the sale of City-owned industrial, commercial and institutional land; and
  - **C09-033** which details various guidelines relating to the sale and/or requests to purchase/lease City-owned land.
- These policies, among others, serve to outline the guidelines under which Saskatoon Land operates as well as the process through which lands will be sold or leased, and who is eligible to purchase/lease those lands.

Additional Processes

- In addition to adhering to a number of Council Policies, Saskatoon Land also undertakes additional processes designed to provide market intelligence and guidance on its business operations, including:
  - it tracks serviced residential land and lot inventories to provide it with insight and intel on future supply;
  - it completes an annual builder survey to obtain insight on development trends;
  - it liaises with a "Builder Steering Committee" comprised of representatives from the City, the Saskatoon & Region Home Builders' Association and Saskatoon Land's eligible contractors; and
  - it monitors key demographic, economic and real estate market information, including information from the City of Saskatoon, Statistics Canada, Conference Board of Canada, Canada Mortgage and Housing Corporation and the Saskatoon Association of Realtors, among other sources.

Reporting

- As a public agency, Saskatoon Land provides regular reports and updates to Administration, the Standing Policy Committee on Finance and Saskatoon City Council on various matters, including:
  - Annual Report (detailing its prior year highlights, including land sales, inventories, key accomplishments, strategic alignment with Administrative and Council priorities, and financial benefits);

Saskatoon Land prepares a number of annual reports and "in camera" documents to update Administration and the SPC on Finance on its operations.

Reporting (continued)

- Three-Year Land Development Report (an annual report that provides a summary of developer servicing plans and builder and developer inventory levels for residential and non-residential land in Saskatoon over the coming three-year period; the report also provides information on economic growth indicators, builder and developer inventory levels, servicing plans and dwelling unit demand profiles based on various population growth scenarios);
- Quarterly reports on builder and developer lot supplies and inventory levels;
- Land Development Financial Update Reports (provided "in camera") detailing land development revenues, expenses and updated investment returns; and
- Initial business cases on neighbourhood land development projects outlining projected land development revenues, expenses and initial investment return expectations.

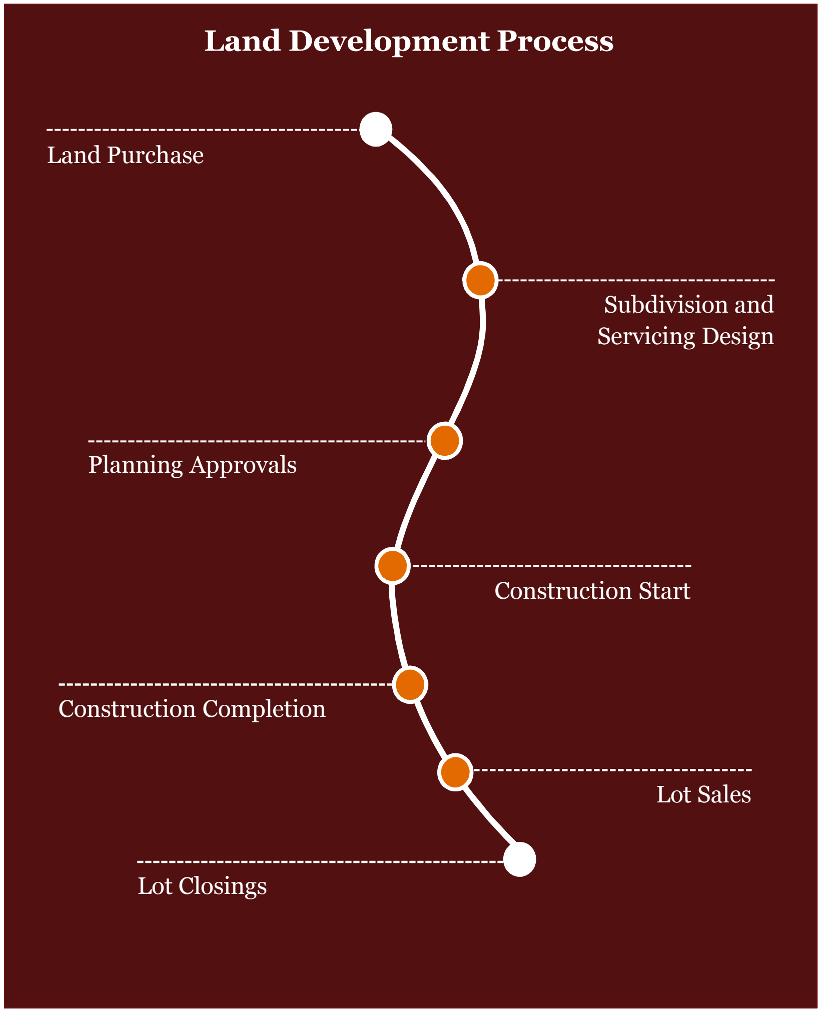
• These reports, together with the additional procedures undertaken by Saskatoon Land, serve to illustrate the level of due diligence and market research undertaken by Saskatoon Land on its land development projects, and how this information is communicated through Administration to the SPC on Finance (as appropriate) and to City Council (as appropriate).

Land Development Risks

Land development is a dynamic, complex and generally long-term process, impacted by a myriad of factors including market demand, pricing, consumer choice and cost.

Land Development Process

- Real estate development is a multi-phase process involving land development, followed by the construction of residential homes or commercial/industrial buildings.
  - The land development cycle commences with a developer purchasing a tract of land. The developer then plans out a subdivision incorporating street layouts, amenities and individual building lots. As part of this plan, the developer will identify the subdivision's servicing requirements and how these are to be connected to the broader municipal systems (including water, sewer, etc.). Finally, the developer will identify how the property will be developed, including assessing if the development will be undertaken through a phased approach.
  - The developer will then seek regulatory approvals in order to allow it to commence development. Upon securing planning permissions, the developer will then commence construction, installing the "horizontal infrastructure" (roads, utilities, etc.) as well as other amenities and features required under the planning approvals (storm water management areas, recreational areas, etc.), and creating the individual building lots.
  - Upon completion of the site servicing and creation of individual building lots, the individual lots will then be sold to builders/ individuals. In some instances, conditional lot presales will be negotiated prior to the commencement of construction.
- The overall timeframe between initial land purchase and when lots are closed can be years, with overall timing dependent upon a number of factors including most importantly market demand, consumer preferences and the level of competition for building lots. Because of these timeframes and influences, land developers will therefore be required to make decisions about the future many years in advance.



Land development requires a developer to navigate a number of risks in order to realize a desired return, including permitting risks, construction risks, marketing and pricing risks, consumer preferences and general economic conditions.

Development Risks

- Because the future is uncertain, there is inherent risk. As with any type of project, understanding and managing risk is crucial. For land development projects, risks occur at each step in the development process and typically include the following:
  - **Permitting risk** which includes the ability to secure rezoning, official plan/ master plan approval, site plan approvals, subdivision approval, and the obtaining of various permits in a timely manner;
  - **Construction risk** which includes risks associated with cost overruns, the delayed completion of subdivision infrastructure, geotechnical issues, labour issues, financing issues, and other unforeseen problems that could prohibit the completion of the project;
  - **Marketing/pricing risk** which includes the risk of failure to sell finished lots in a timely and profitable manner, including from bringing too many finished lots to the market at one time;
  - **Consumer preference risks** which includes the risk of bringing the too many lots of the wrong size or type to the market;
  - **Economic risks** which include the risks associated with overall economic conditions that affect the housing market, including changes in mortgage rates, recessions, changing demographics, job losses, etc.; and
  - **Timing risks** which result from each of the foregoing and serve to increase direct costs, as well as carrying (i.e., financing) costs resulting from the delay in the timing of when the developer would be able to close on lot sales and realize income.
- The foregoing risks, depending on how successful a developer is in being able to mitigate or minimize their impact, will serve to decrease or eliminate a developer's expected return on investment, which per our understanding, is generally considered to be in the range of 15% to 25% (gross margin as a percentage of total expenses) or more.

Expected Return: 15% to 25% (or more)

Risk mitigation in land development is generally undertaken through a combination of upfront due diligence, continual market monitoring, development phasing and cost monitoring/management.

Risk Management

- As noted above, risk mitigation in land development is generally undertaken through a combination of upfront due diligence, continual market monitoring, development phasing and cost monitoring and management.
  - **Research/Due Diligence** is essential in assessing and managing virtually all kinds of risk. Such research will be required upfront when initial due diligence is being completed on the viability of a proposed development project. Such upfront due diligence will typically include:
    - completion of an initial business case/investment analysis, including a development yield analysis (i.e., number and type of lots), revenue potential, estimated costs of development, estimated return and overall development timeframe, to facilitate the initial investment decision;
    - geotechnical and other similar type investigations will similarly need to be undertaken to ensure the developability of the site and to identify other potential areas of concern (and to identify potential solutions and costs to overcome them);
    - local market area analysis is undertaken to identify and understand key and emerging trends influencing the economy of a local area; and
    - a residential market assessment is undertaken to identify and understand demographic and residential market parameters impacting a potential development, including pricing, demand, population growth, household formation trends, consumer preferences and to understand competing projects, etc., to identify the specific market niche(s) which would maximize the success of the project.
- **Continual Market Monitoring** is undertaken throughout the development process to monitor and keep abreast of demand and supply trends in the market, including consumer preferences relating to lot designs (i.e., are market-acceptable lots being created), near and medium term lot supply, pricing trends, real estate market trends (including starts, completions, sales activity, changes in average price, etc.), and economic and demographic conditions (including local economic and demographic trends which could foreshadow changes in future demand).
- **Development Phasing** is undertaken to match lot supply with expected demand and as a way to manage development expenditures (because land development requires time and upfront expenditures to acquire property, obtain regulatory approvals and construct the needed infrastructure, significant expenditures are made prior to when revenue from lot sales is generated; phasing a larger development in more “manageable” pieces allows a developer to better match expenditures, revenues, returns and hence risk).
- **Cost Monitoring/Management** includes a developer utilizing controlled pricing mechanisms, including competitive bidding and fixed-price contacts. It also includes a developer working with external resources to verify costs, as well as keeping up-to-date information on costs from other projects for use in verifying prices.

Risk management practices are utilized by land developers to monitor the land market and enable them to match planned expenditures with projected revenue.

Risk Management (continued)

- Other mechanisms used by developers to minimize risk include:
  - **Lot Presales** where individual lots/groups of lots are pre-sold to housebuilders prior to the construction commencing. Such pre-sales are conditional and minimal deposits are provided. While potentially foregoing any increases in lot values (as homebuilders would be "locking in" prices in advance), the land developer is provided with greater cash flow certainty. Preselling lots also allows the developer to "test" the market prior to entering into construction contract commitments.
  - **Payment Timing** mechanisms are used by land developers to delay/defer when payments are made (to the extent possible) and to advance the time (and amounts) of when revenues are due.
- Utilizing the above noted risk management mechanisms allow a land developer to monitor the real estate and land markets, enabling them to better match planned expenditures with projected revenues.

Benchmarked Entities

Five municipal land development organizations were contacted to assess their current approach to risk management.

Benchmarked Entities

- As part of the scope of work completed by PwC, a number of municipal land development entities were identified and background information describing their operations and approach was reviewed. Discussions were also held to obtain additional clarity and information on their operations. Municipal land development entities surveyed as part of this review included:
  - City of Calgary, Real Estate & Development Services;
  - City of Medicine Hat, Land & Properties Department;
  - City of Red Deer, Land & Economic Development;
  - Enterprise Land Development (City of Edmonton); and
  - Lethbridge Land.
- Information sought from each entity included the following:
  - Organizationally, how are decisions made and how are they approved;
  - What reporting requirements exist;
  - How are land development costs controlled;
  - How is the local land market monitored to predict and "get ahead of the curve" on major trends;
  - How are lot draw pricing decisions made;
  - What metrics are monitored and communicated (for example, land supply, building lot availability, the level of supply that the entity is looking to have whether a six-month, one-year or two-year period, etc.);
  - Do minimum return targets on individual land development projects exist; and
  - What is being done differently in 2016 compared to 2014 before oil prices collapsed?
- In addition, information detailing returns generated by private land developers was also reviewed.

Observations

- **All entities are "for profit" municipal departments.** All entities reviewed are for profit departments of their respective municipality. In at least one instance, consideration has been given to having the entity operate as an arm's-length Municipal Development Corporation. In some cases, the entity is the largest land developer in the community, while in others, it constitutes less than 50% and in others less than 25% of the land development market. These entities are governed by municipal policies which govern its involvement in land development.
- **While municipal entities, they are held to the same standard as private sector developers.** From a municipal approvals perspective (planning, engineering, etc.), it is noted that the municipal land development entity is held to the same standard and is required to provide the same level of due diligence and supporting documentation as would any private sector land developer. In some instances, it was specifically noted that from a transparency perspective, the municipal land development entity may be held to an even higher standard.
- **Most entities reviewed complete a risk assessment at the commencement of each development project.** Whether in the form of a business case or development proforma, most entities surveyed prepare an initial evaluation of their development projects prior to proceeding to evaluate them from an overall due diligence, feasibility and return perspective.

The approaches taken by these five municipal land development organizations were, for the most part, consistent with general industry practices.

Observations (continued)

- **All entities reviewed conduct regular market monitoring.** All entities undertake regular market monitoring of key metrics influencing the demand for and supply of residential and industrial lots in their respective communities. Metrics monitored include starts, completions, absorption, building permits, price, consumer preferences, economic statistics, demographic statistics, etc.
- **Most entities supplement their regular monitoring of development metrics with regular discussions with industry participants.** Most entities indicated that they hold regular consultation sessions with real estate development industry participants, including: individual homebuilders; the local home building association; the local Urban Development Institute, the local real estate board/individual real estate agents; industry consultants (including engineers, appraisers, etc.); and local economic development officials. In some cases, surveys are issued. Such consultations were noted as occurring as infrequently as quarterly (i.e., four times per year), while other entities indicated that they met more informally to discuss the market on a weekly or bi-weekly basis.
- **Project due diligence and market monitoring efforts have increased since 2014.** With the decline in oil and gas prices, coupled with a general downturn in the Alberta economy, the level of due diligence and market monitoring undertaken by surveyed municipal land development entities has increased. Much greater emphasis is being placed on matching supply with demand and undertaking due diligence to project land requirements against potential demand.
- **Project development costs are managed through a combination of fixed-price contracts and consulting resources.** Most entities indicated that the process used to quantify costs and ensure that tendered costs were reasonable involved the municipality's engineering department or land development agency retaining a third party consultant, knowledgeable and experienced in local land development, to assist in the preparation of plans and specifications. Fixed-price construction tenders were then led by the municipality, with the third party consultant on-hand to assist in the review of bids, particularly from a pricing perspective.
- **Return expectation vary, with total project returns of between 15% and 30% targeted.** While some entities did not identify specific return expectations, those that did indicated that, at project initiation, minimum returns of 15% were required (including financing); another entity indicated that a target return of 30% was desired (gross margin - total revenues over land development expenses, including departmental overhead costs). Actual realized returns in 2015 were 17% and greater than 40%, respectively (including both residential and industrial land development).
- **Reporting is generally through city Administration on a confidential basis.** Although a number of "in camera" reports are typically generated for internal reporting purposes, including initial business cases, project updates, financial updates and financing requests, a number of documents are also publicly made available. Included among these public documents are departmental annual reports, departmental submissions as part of the municipalities' annual budget process, project summaries and marketing documents, Council policies, governance/policy amendments, and final project reports.

Based on information detailing the operations of private sector land development entities, information monitored is consistent with those of municipal land development entities while returns are estimated to be higher.

Observations (continued)

- **Some municipal land development entities identify "land supply targets.** Not all municipal land development entities surveyed indicated that they maintain land supply targets. For those who have, supply targets of two years for residential lots was noted, while acreage targets for serviced industrial were most common. One entity's policy requires that they not exceed more than a certain percentage of the total single family market in their region.

Private Sector returns

- As noted above, information detailing returns generated by private land developers was also reviewed. Included in this review were two integrated land development companies and one land residential land development entity.
- A review of total project returns (gross margins) over a number of different land development projects identified a return range between 21.9% (for an approximate 600-lot development) to 49.5% (for an approximate 1,600-lot development). The average leveraged return (including financing costs) is estimated to be in the range of 42%.
- In evaluating their operating environment, these entities profile:
  - local, regional and provincial economic conditions;
  - local, regional and provincial demographic trends;
  - total residential development activity in the local market (including starts, absorption, prices, housing sales, etc.); and
  - financial projections, including risk assessment.

	Return Expectations
Public Land Development Entities	15% - 30%
Private Land Development Companies	20% - 50%

Findings

Saskatoon Land's approach to risk management is consistent with other municipal land development agencies and general industry best practices. Its returns are generally consistent with other entities, including private sector land developers.

Findings

- As noted above, Saskatoon Land is mandated to examine the demand for institutional, commercial, industrial and residential land in the Saskatoon market and based on these assessments, arrange for the appropriate quantity and type of land to be designated and developed for eventual sale.
- In adhering to various Council Policies, Saskatoon Land also undertakes additional processes designed to provide market intelligence and guidance on its business operations, including:
  - monitoring serviced residential land and lot inventories to provide it with insight and intel on future supply;
  - undertaking an annual builder survey to obtain insight on development trends;
  - liaising with a "Builder Steering Committee" comprised of representatives from the City, the Saskatoon & Region Home Builders' Association and Saskatoon Land's eligible contractors; and
  - monitoring key demographic, economic and real estate market information, including information from the City of Saskatoon, Statistics Canada, Conference Board of Canada, Canada Mortgage and Housing Corporation and the Saskatoon Association of Realtors, among other sources.
- In servicing land, Saskatoon strives to maintain a one-year supply of low density lots and a two-year supply of medium density lands.
- Based on information provided, we understand that Saskatoon Land is currently projecting total returns (2016), on a gross margin basis, of between 15% and almost 40% for the Aspen Ridge, Evergreen, Kensington, Parkridge Extension and Rosewood projects. On a consolidated basis, the estimated return is in the range of 28.5% (weighted average).
- As noted in the following table, this range of return compares favourably to other municipal land development entities, as well as with some private land development companies.

	Return Expectations
Public Land Development Entities	15% - 30%
Private Land Development Companies	20% - 50%
Saskatoon Land	15% - 40%

- In generating returns comparable to other municipal and private land development entities, it is also noted that Saskatoon Land generally implements processes and procedures which are consistent with those followed by other land development agencies and general industry best practices.
  - Saskatoon Land undertakes upfront **Research and Due Diligence**, including:
    - initial business cases/investment analyses;
    - local market area analyses; and
    - residential market assessments.

While Saskatoon Land implements risk management protocols that are generally consistent with industry best practices, Saskatoon Land could implement additional protocols to further manager risk.

Findings (continued)

- Saskatoon Land also regularly conducts **Continual Market Monitoring** throughout the development process to monitor and keep abreast of demand and supply trends in the Saskatoon market, including consumer preferences relating to lot designs, near and medium term lot supply (both created by Saskatoon Land and other private land developers in the Saskatoon market), pricing trends, real estate market trends (including starts, completions, sales activity, changes in average price, etc.), and economic and demographic conditions (including local economic and demographic trends which could foreshadow changes in future demand). In conducting such market monitoring, Saskatoon Land also liaised with the local land development, home builders and other industry participants, and regularly reports to Administration, the City's Standing Policy Committee on Finance and Saskatoon City Council.
- Similar to most public and private sector land development agencies, Saskatoon Land also utilizes **Development Phasing** in order to match lot supply with expected demand and therefore in order to manage development expenditures.
- Finally, it is noted the Saskatoon Land also utilizes various **Cost Monitoring/Management** methodologies, including competitive bidding and fixed-price contacts. Saskatoon Land also works with internal and external resources to assist in verifying costs, as well as keeps up-to-date information on costs from other projects.

Additional Measures

It is also noted that Saskatoon Land could implement additional protocols to further manage risk, including utilizing **Lot Presales** in order to "lock-in" future land sales.

While providing Saskatoon Land greater revenue certainty, allowing it to "test" the market prior to entering into construction contract commitments, it is noted that total returns could be lower than currently realized (as lot sales would be committed to years before they have historically been marketed and sold). In addition, the current sales approach undertaken by Saskatoon Land (selling to both individuals and pre-approved contractors in the house-building business in Saskatoon) may need to be amended.

In this regard, it is noted that Saskatoon Land's current process involves selling a portion of residential buildings lots to builders and a portion to individuals homeowners. If pre-sales are undertaken, it would require that both home builders, many of whom are small, and individual homeowners enter into contracts years prior to the lots being ready to build home on. If presales are undertaken, it is possible that the phase being prepared could be entirely presold and no lots are left for sale to individual homeowners.

Implementing such a measure could necessitate that Saskatoon Land limit presales to a certain percentage of lots being created (to be determined, but, say, perhaps 50%) in order to provide smaller builders and individual homeowners the opportunity to purchase lots when created.

Administrative Response – PricewaterhouseCoopers – Saskatoon Land Internal Audit Report

Recommendation
That the information be received.

Topic and Purpose
The purpose of this report is to provide the Administration's response to the recommendations in PricewaterhouseCooper's (PwC) Saskatoon Land Internal Audit Report.

Report Highlights
1. The Administration agrees with the recommendations made by PwC in the adherence to policy review.

2. The Administration agrees with the recommendation to increase awareness with Saskatoon Land staff regarding conflict of interest, and will review the current Administrative Policy to provide more certainty for employees of what constitutes a conflict of interest.

3. In regard to policy review, the Administration is in agreement with PwC's general assessment. Implementation of the recommendations based on other municipalities' policies will need to consider the competitiveness with local market realities, among other issues.

4. The Administration is in general agreement with PwC's recommendations to further review increased transparency in financial reporting.

5. PwC has suggested that the formation of a municipal land corporation bears attentive consideration.

Strategic Goals
This report supports the long-term strategy of providing a coordinated approach to customer service with quick and accurate responses under the Strategic Goal of Continuous Improvement. This report also supports the long-term strategy of creating a business-friendly environment where the economy is diverse and builds on our city and region's competitive strengths under the Strategic Goal of Economic Diversity and Prosperity.

Background
A comprehensive audit of the Land Bank Program was performed by the Office of the Auditor General in 1999. The audit reviewed the City of Saskatoon's (City) Land Development program objectives, reporting structure, authority, results, financial

reporting and pricing. One of the overall conclusions of the 1999 Audit report was that "the City remain an active participant in the Land Bank business".

Saskatoon Land has since undergone the following audits/reviews on the Land Bank operation:

- 1999 – Audit Report on Land Bank Program
- 2000 – Civic Land Rental Revenue
- 2006 – Benchmarking Report on Land Bank Policies and Practices
- 2008 – Land Branch Revenue Collection Audit
- 2013 – Land Branch & Real Estate Services City-owned Land Rental Revenue Program Review
- 2014 – Saskatoon Land Inventory and Revenue System

At its August 15, 2016 meeting, the Standing Policy Committee on Finance (Committee) approved the scope for the current Saskatoon Land Internal Audit by PwC which consisted of the following seven procedures:

- Procedure 1 – Adherence to Policies
- Procedure 2 – Conflict of Interest
- Procedure 3 – Lot Prices/Lot Pricing Process
- Procedure 4 – Assessment of Policies
- Procedure 5 – Privacy, Access to Information and Financial Reporting
- Procedure 6 – Business and Governance Structure
- Procedure 7 – Risk Assessment

PwC's final report of the Saskatoon Land Internal Audit, as well as its Risk Assessment, will be presented to the Standing Policy Committee on Finance at its May 29, 2017 meeting.

Report

The Administration's detailed responses to PwC's recommendations are provided in Attachment 1. The following sections of this report summarize the major themes identified for the recommendations provided by PwC.

<u>Procedure 1: Adherence to Policies</u>

PwC has provided 12 recommendations under this procedure to "both improve Saskatoon Land compliance in certain areas and to address certain items in policy with the Committee to ensure that policies are applied consistently going forward and that the Committee is comfortable with the discretion being exercised in the administration of the policies."

The Administration generally agrees with the recommendations made, and in some instances, is already in the process of implementing procedures and proposing policy changes to address known issues (i.e. changes to payment terms and lot purchase requirements).

A common theme identified by PwC in the adherence to policy analysis is the Administration's use of discretion in administering Council policies and internal procedures. In administering the various polices reviewed, Saskatoon Land has realized that it is inherently difficult to formulate a policy directive that encompasses all potential occurrences and issues that may arise in the day-to-day operation of the City's land development/sales business.

Generally speaking, the various policies that guide the Administration in the operation of the Land Development program have worked well. However, changing market conditions in Saskatoon over the last few years have demonstrated that some long-standing policies and procedures are no longer relevant or may require amendments to provide the Administration with the ability to operate more effectively. Over the past three years, the Administration has proposed eight distinct policy amendments to the core policies that guide staff in the day-to-day operation and sale of City-owned lands. The recent audit by PwC has confirmed that further Council Policy adjustments will be necessary to ensure that these guiding documents are providing the Administration enough flexibility to fulfill the mandate of the Land Development program, and that City Council is comfortable with the proposed approach.

In the instances of unintentional errors identified by PwC in Procedure 1, the Administration self-identified many of these prior to the internal audit and initiated steps to improve procedures to ensure the same errors are not repeated in the future.

<u>Procedure 2: Conflict of Interest</u>
PwC provided two recommendations to increase corporate awareness of conflict of interest. The Administration agrees with the recommendation to increase corporate awareness regarding conflict of interest and will work with the Corporate Performance Department to propose amendments to Administrative Policy No. A04-006, Employee Conflict of Interest, which will provide more certainty not only to Saskatoon Land staff, but also to all other civic employees, of what precisely constitutes a conflict of interest.

<u>Procedure 4: Assessment of Policies</u>
The Administration is in agreement with the general assessment of PwC's policy review. In considering the three specific recommendations made under this procedure and the comparisons to other municipalities, the Administration also notes the need to understand the processes and practices used by other developers that sell land in the Saskatoon market. Having policies and practices in place that allow Saskatoon Land to operate competitively within the local market place is critical to the continued success of the Land Development program.

<u>Procedure 5: Privacy, Access to Information and Financial Reporting</u>
PwC provided four recommendations regarding financial reporting aimed at improving transparency. While the Administration agrees with the recommendations for enhanced financial reporting, it should be noted that current reporting is not in violation of any accounting standards, as confirmed annually by the external auditor.

The proposed implementation dates for PwC's Recommendations 1-21 are noted in Attachment 1.

Procedure 6: Business and Governance Structure
Under this procedure, PwC provided a high-level analysis and opinion that the "institution of a municipal land corporation (MDC) bears attentive consideration by the Standing Policy Committee on Finance." Furthermore, PwC indicated most, if not all, of the recommendations provided in the report can also be achieved under the current structure.

While the formation of an MDC for some or all of the City's land development activities may be a viable alternative to the current structure, further analysis will be required before the Administration can develop its own opinion on this suggested governance option.

Public and/or Stakeholder Involvement
Many of the recommendations made by PwC will require the Administration to propose policy amendments for Standing Policy Committee on Finance/City Council consideration.

Engagement with various stakeholders will be required prior to finalizing any significant changes to current Council policies.

Communication Plan
Completion of an updated communication plan for the public and business community will be developed to increase the understanding of the City's current mandate and benefits of the City's involvement in the land development business.

Policy Implications
Implementation of audit recommendations will require changes to current Council policies; therefore, future reports will be presented proposing these changes.

Due Date for Follow-up and/or Project Completion
Reports regarding the implementation of audit recommendations will be forthcoming in the near future.

Public Notice
Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachment
1. Saskatoon Land Internal Audit – Administrative Response

Report Approval

Written by:	Frank Long, Director of Saskatoon Land
Reviewed by:	Kerry Tarasoff, CFO/General Manager Asset & Financial Management Department
Approved by:	Murray Totland, City Manager

Administrative Response – PwC – Saskatoon Land Internal Audit.docx

Saskatoon Land Internal Audit - Administrative Response

Rec No.	Internal Auditor Recommendation	Administration's Response	Scheduled Impl. Date
1	*"IA recommends that Saskatoon Land, following its responsibilities in Section 4.1 of C09-006 to "recommend changes to this policy, when required, to City Council through the Standing Policy Committee on Finance", propose further definition to Section 3.4 to avoid the need for discretion to be exercised by formally contemplating such circumstances and the proper action(s) to be taken regarding interest when they arise. This would include the matter of when to begin charging interest and also the extension to 16 months."*	Agree - Implemented. The Administration recommended amendments to Section 3.4 of Council Policy No. C09-006, Residential Lot Sales - General Policy, which were approved by City Council at its January 23, 2017 meeting. The approved amendments require the Administration to propose payment terms for each land sale request made to the Standing Policy Committee on Finance (Committee), including when to begin charging interest and the continued use of the extension to 16 months for lot payouts.	23-Jan-17 **COMPLETE**
2	*"IA recommends that Saskatoon Land increase its diligence in ensuring that Council Policy C09-006 is adhered to regarding requirement to pay the minimum down-payment of 13% of the purchase price, together with all applicable taxes, at the time of purchase."*	Agree. Ensuring the deposit is received and the Sale Agreement signed is a critical part of the lot purchase process. The occurrence of not receiving the required deposit in a timely manner noted by IA is rare; however, the Administration will increase diligence by recommending that 5 business days be given in order for builders to go to the Saskatoon Land office for payment of the deposit and execution of the Sale Agreement. Failure to meet this requirement will mean the purchase will not proceed, the lot will be returned to inventory, and a $500 restocking fee will be applied.	30-May-17
3	*"IA recommends that the internal procedure be further refined to avoid the need for discretion in these instances going-forward, and also so that there be a clear and formal record of decisions that have been made in the past so that future application of the rule is consistent and there is not inconsistency from one lot draw to the next. In general, one of the challenges with having a highly regulated and defined process is that exceptions to the rule can arise, in which case discretion is required to be applied. In this case, although IA does not necessarily challenge the logic applied to include the builder which fell short by 1 lot, it is inconsistent with the procedure as written."*	Agree. Saskatoon Land's written internal procedures manual will be updated to reflect IA's comments on the calculation process to ensure there is documentation for future lot draws. Saskatoon Land will commit to document these decisions in the internal procedures manual as they occur and apply the procedures in a fair and equitable manner.	30-May-17
4	*"IA recommends that the practice of allowing contractors to participate in lot draws based on telephone conversations and emails be discontinued, or alternatively that a more formal acknowledgement of the purchase be required from the contractor so that there is no room for dispute subsequent to the lot draw. Note that our review of other municipalities in Procedure 4 indicated that all other municipalities reviewed required purchasers to be physically present to register for and attend the lot draw, and some but not all allowed for an authorised representative to be physically present on the purchaser's behalf. Although the internal procedure at Saskatoon Land for lot draw appointments as currently written allows for builders to phone or email their selections, there is intended to be follow-up performed to confirm that the lot being processed is in fact their choice. In addition to the challenges posed by the instances noted above, it detracts from the lot draw process as a whole as lots are removed from availability that may have been purchased by another contractor. Obtaining signed sales agreements and deposits at the time of purchase, as required by policy, would rectify this issue, as well as address the other issue noted above regarding contractors not signing sales agreements. This echoes recommendations #1 and #2."*	Agree. The Administration has always required that Eligible Contractors complete and submit a lot draw application form to participate in lot draw allocations. To address IA's recommendation that a formal acknowledgement of the purchase be required from contractors selecting lots by email or phone, the Administration will to recommend that 5 business days be given in order for builders to go to the Saskatoon Land office for payment of the deposit and execution of the Sale Agreement. Failure to meet this requirement will mean the purchase will not proceed, the lot will be returned to inventory, and the contractor will be charged a $500 restocking fee.	30-May-17

Saskatoon Land Internal Audit - Administrative Response

ATTACHMENT 1

Rec No.	Internal Auditor Recommendation	Administration's Response	Scheduled Impl. Date
5	*IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.7 with respect to cancellations. Saskatoon Land's responsibility under C09-006 is to "Administer the sale of City-owned residential lots in accordance with the terms and conditions set out in this policy". The instances of the allowances made above to initiate cancellations and negotiate fees and penalties are not addressed in policy and require significant discretion. A formal policy should be in place either disallowing these types of negotiations entirely or providing clear guidelines and approval limits if Saskatoon Land and the SPC on Finance wish to continue allowing exceptions to C09-006 3.7.*	Agree. The Administration will recommend changes to Council Policy No. C09-006 that provides Saskatoon Land discretion in administering cancellations under Section 3.7, and the circumstances when the discretion can be used.	28-Aug-17
6	*"IA recommends that the rationale for non-performance of a site inspection be clearly documented by the appropriate Saskatoon Land representative. We believe that the exercise of discretion in this area is appropriate and that the decision-making process and criteria need to be clearly reflected in the respective files."*	Agree. The Administration will create a checklist form to be completed during the lot return process that identifies if a lot inspection needs to occur, or why it is not required if it does not occur.	30-May-17
7	*"IA recommends that, prior to accepting any new hold or sale transactions on returned lots, Saskatoon Land staff ensures that the lot in question has been fully updated and posted on the website, at which point it is officially available for purchase by eligible contractors."*	Agree. Further to the Administration's response to Recommendation 6, the checklist form will indicate that all processes of the lot return procedure have been completed and the lot can now be placed on Saskatoon Land's website for sale. Further changes to Saskatoon Land's website that link lot inventory to a live web-based mapping application will further aid in insuring only lots that have gone through the complete lot return process are showing as available for sale on the website.	30-Jul-17
8	*"With the new non-manual system in place to track outstanding accounts, given current policy as written, IA recommends that Saskatoon Land adhere strictly to the requirements with respect to outstanding accounts and be diligent in suspending contractors from further purchases once the 16-month limit is reached, regardless of extenuating circumstances. Under current policy as written, our recommendations would be that no additional purchases be made without actual settlement of the outstanding account, as the commitment to settle an outstanding account is not equivalent to actual settlement of the account. If there is a level of discretion that the SPCF is comfortable having Saskatoon Land exercise with respect to allowing additional purchases to contractors with outstanding accounts at the time of the proposed purchase, IA recommends that this be incorporated into existing policy or, if full discretion is desired, that this requirement be removed from policy altogether."*	Agree. The Administration will be diligent in suspending contractors from further purchases that are past the 16 month extension period for lot payouts. The Administration will bring forward a report for Committee's consideration that outlines possible policy changes to address the level of discretion required to manage outstanding accounts.	30-Sep-17
9	*"IA recommends that an examination of the outstanding account procedure and the enforcement thereof be undertaken, as much for the sake of finances/operations as adherence to policy. Each month there is an average of 15 contractors on the AR suspension listing, and there are several contractors, including Category 1 contractors, in frequent violation. The exertion of more rigour with respect to enforcement the extensions as opposed to a rebuttal presumption that each contractor will take the full 16 months to pay will assist in this regard, as will more consistent application of the policy to suspend after 12 months as opposed to 16 months if the criteria for the 16-month extension is not met, including receipt of additional payments."*	Agree. The Administration will undertake a review of the current outstanding account procedure and enforcement and report back to Committee.	31-Dec-17

Rec No.	Internal Auditor Recommendation	Administration's Response	Scheduled Impl. Date
10	*"IA recommends that Saskatoon Land, in accordance with 4.1 (b) of C09-006, recommend changes to the policy to implement any needed changes 3.9 with respect to the Time Frame to Build Requirement. Saskatoon Land's responsibility under C09-006 is to "Administer the sale of City-owned residential lots in accordance with the terms and conditions set out in this policy". The discretion required to be exercised regarding inspection dates indicates that further clarification is needed within policy to ensure fairness and consistency in application of the Time Frame to Build Requirement (i.e., to clearly define when a building is considered complete by Saskatoon Land, including any types of outstanding deficiencies that are acceptable for purposes of enforcing this requirement). IA also recommends that either additional coordination occur between Saskatoon Land and Building Inspections to ensure that there is proper application of policy with respect to "a clear Final Building Inspection" or that the responsibility for enforcing this requirement be removed from Saskatoon Land altogether and become the responsibility of the Building Inspection department."*	Agree. Saskatoon Land will recommend changes to the Time Frame to Build Requirement in accordance with Section 4.1(b) of Council Policy No. C09-006. Coordination between Saskatoon Land and Building Standards will take place to ensure there is proper application of the policy requirement and responsibility of ensuring a clear final building inspection.	30-Aug-17
11	*"IA recommends that Saskatoon Land implement a new procedure for monitoring and enforcing the Time Frame to Build Requirement. Based on the items noted above, it would be reasonable to conclude that the Time Frame to Build Requirement has not been adequately enforced during the period inspected due to the process implemented and the significant challenges that Saskatoon Land has faced in its attempts to prepare the report via an automated method. Although our preference would be that Saskatoon Land work with the software provider(s) and/or the City of Saskatoon Information Technology department on an automated solution to monitor and enforce the Time Frame to Build Requirement, we understand that attempts to do so during the period under audit were unsuccessful and that a new tracking system has been implemented within the software to facilitate monitoring and enforcing the Time Frame to Build Requirement."*	Agree. New procedure was implemented September 2016. Over the last two and a half years, Saskatoon Land, with the help of IT programmers, has attempted to create a bridge reporting system between Reflex and Posse software to automate the process of identifying builders in violation of the three-year build time requirement. In the creation and attempted rollout of the report, many errors were encountered in the automated comparison of the two data sets. Despite multiple attempts to correct these errors, there continued to be issues and deficiencies in the bridging report, and the reliability of the data was constantly in question. To address the known deficiencies, Saskatoon Land has abandoned the bridge report and implemented a new tracking system in which a diary is created in the Reflex system at the time of sale. The diary automatically sends reminders to staff to check the build requirement at select intervals. This also allows the Administration to deal with violations in a more timely matter, as all alerts will take place on the individual lot level and not just when a report is run. At these intervals, Saskatoon Land will generate the required letters in Reflex and remind builders of their requirements.	01-Sep-16 **COMPLETED PRIOR TO AUDIT**
12	*"IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.9 with respect to allowing for the possession date to be used as the commencement date in place of the date of the Agreement for Sale."*	Agree. The Administration will recommend policy changes in accordance with 4.1(b) of Council Policy No. C09-006 to address the build time commencement date.	30-Aug-17

Rec No.	Internal Auditor Recommendation	Administration's Response	Scheduled Impl. Date
13	*"IA recommends that a formal Employee Conflict of Interest policy specific to Saskatoon Land be developed. This policy would use the City of Saskatoon's Administrative Policy A004-006 as a template, but within each of the 6 sections of the policy could give more specific instances of applicable circumstances which could arise at Saskatoon Land. The existence of the policy would provide more certainty for Saskatoon Land employees of what precisely constitutes a conflict of interest and would work to eliminate any lack of clarity in this area that currently might exist. Saskatoon Land could refer to the code of conduct and conflict of interest policy in place at Calgary Municipal Land Corporation or Surrey City Development Corporation for examples (refer to procedure 6 for further comments on these municipal land corporations)."*	Agree. The Administration is currently conducting a review of Administrative Policy No. A04-006, Employee Conflict of Interest. Specific amendments will be proposed to address IA's comments regarding Saskatoon Land and other civic departments that face similar conflict situations with the customers and clients they interact with.	30-Apr-18
14	*"IA recommends that subsequent to the Saskatoon Land conflict of interest policy being finalized, that it be presented formally to all Saskatoon Land staff. This should be supplemented by a formal annual declaration from each employee that they understand the policy and are conflict-free. Finally at the bi-weekly team meetings that take place at Saskatoon Land, conflict of interest should be a standing item on the meeting agenda so that there is an open forum for management and staff to discuss potential conflicts of interest. In particular, this would provide an opportunity to discuss any work being done personally for Saskatoon Land Management and staff by contractors and trades (both before and during) and also to discuss any business meetings taking place."*	Agree. Saskatoon Land will add "Conflict of Interest" as a standing agenda item to its bi-weekly division meetings, and ensure Administrative Policy No. A04-006, or any newly developed conflict of interest policy, is reviewed by all Saskatoon Land employees on an annual basis, supplemented by a formal declaration from each employee.	30-May-17
15	*"IA recommends that Saskatoon Land consider increases to the types (i.e., application fees, qualifying deposits, design/development/architectural deposits and performance fees) and amounts of deposits and related fees required in order to facilitate entry into the lot draw and/or the sales agreements itself."*	Agree. Saskatoon Land will undertake a review of potential fee options to enter lot draws and sale agreements and report to Committee. Engagement with builder customers will take place before any potential fees for entering draws are proposed.	18-Apr-18
16	*"IA recommends that Saskatoon Land consider reducing the timeline to pay and/or the interest rates and/or the consequences of non-payment. Other instances were noted of much stricter timelines to pay in certain municipalities (i.e., 2, 3 or 4 months), much higher interest (i.e., 18%) and much stricter consequences of non-payment (i.e. forfeit of deposit and cancellation of sales agreement). IA notes that any tightening of the financial restrictions would have to be carefully considered as they might restrict the number of contractors able to purchase lots from the City of Saskatoon if too restrictive (although this policy could be used to strike a desirable balance in that regard). Additionally, current market conditions and payment terms being offered by major competitors could also factor into this policy choice. IA notes that this recommendation should be read in conjunction with Recommendations #8 and #9 on page 14 regarding outstanding accounts."*	Agree. The Administration considered PwC's recommendation for stricter timelines for payment, interest charges and consequences of non-payment. Due to the fact that other developers in the local market are currently offering generous payment terms, the Administration advises against implementing more stringent payment changes in the short term. The recent amendment to Council Policy No. C09-006, Section 3.4, approved by City Council on January 23, 2017, allows the Administration to propose specific payment terms for each successive land offering for Committee's consideration. Increasing interest rates, deposits and payment timelines in the current market would put Saskatoon Land at a significant competitive disadvantage with other developers in Saskatoon area.	N/A
17	*"IA recommends that Saskatoon Land consider implementing changes to the lot return calculations, for example with reference to those utilised by the City of Red Deer."*	Agree. Saskatoon Land will review other methods of calculating return fees and report its findings to Committee.	1-Jan-18

Rec No.	Internal Auditor Recommendation	Administration's Response	Scheduled Impl. Date
18	*"IA recommends that, in light of existing PSAS guidance regarding segmented reporting and segmented reporting practices in place at comparable municipalities with land development activities, the City of Saskatoon examine their existing policy on segmented reporting to consider the inclusion of Saskatoon Land as a unique operating segment."*	Agree. Saskatoon Land, along with the Finance Division, will undertake a review on segmented reporting possibilities and report its findings to Committee. Current reporting is not in violation of any accounting standards.	1-Apr-18
19	*"IA recommends that, in light of existing transparency of land development budgeting in place at the City of Edmonton, the City of Saskatoon examine their existing budgeting* to include further details on its land development activities."	Agree. Saskatoon Land will undertake a review and comparison of the City of Edmonton's land development budgeting with the City of Saskatoon's current budgetary practice. Findings will be reported to Committee.	1-Apr-18
20	*"IA recommends that, in light of existing supplementary financial information produced by Land and Business Support in Medicine Hat and the Office of Land Servicing & Housing in Calgary, Saskatoon Land examine additional financial reporting that could be incorporated into their annual report to increase transparency and meaningfulness of the information being communicated to community stakeholders."*	Agree. Saskatoon Land has begun reviewing supplementary financial information provided by other municipalities, and will look at additional data that could be provided in the Saskatoon Land Annual Report and the City of Saskatoon Annual Report. Previous audits of the Land Branch recommended that for confidentially reasons, financial performance and investment return information be provided in camera.	1-Apr-18
21	*"IA recommends that Saskatoon Land consider publishing the Eligible Builder's List on an annual basis, in a fashion that is publicly available, or more limited to the eligible builders group themselves. The recommendation is for an annual publication as opposed to a monthly publication as the list itself does not change during the course of year, but rather is impacted by those builders who are suspended from the list by virtue of outstanding accounts or build times in violation of policy. These updates throughout the year could also be made available in a transparent fashion."*	Agree. Saskatoon Land will publish its annual Eligible Contractor list on Saskatoon Land's new website, and update it as new builders complete their probationary period. Due to the confidential nature of suspensions, builders who are currently suspended will not be indicated as such on the list.	1-Jul-17

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Capital Planning and Budgeting, Life Cycle Costs and Operating Costs

SPCF on Finance: May 29, 2017

Date of Submission: May 23, 2017

pwc

Limitations and Responsibilities

This report was prepared by PwC at the request of City of Saskatoon and is intended solely for the information of City of Saskatoon management and the Standing Policy Committee on Finance of the City Council. The material in it reflects PwC's best judgment in light of the information available at the time of preparation. This report has been prepared for and only for City of Saskatoon pursuant to our Statement of Work and for no other purpose. The existence of this report may not be disclosed nor its contents published in any way without PwC's written approval in each specific instance. PwC does not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing. Our work was limited to the specific procedures and analysis described herein and was based on the information made available through December 23, 2016. Our findings are based on the information provided and the data collected during this engagement.

Contents

Executive Summary

The City of Saskatoon (the City) currently has an asset management framework in place with their existing strategy document but lacks a formal overarching, fundamental principles-based policy in place above the stated strategy. The theme of this report and the framework it follows is to guide the City in building on the asset management foundation it has developed by further developing a principles and policy based approach to asset management that tightly links the principles and policies to the master Asset Management Plan (AMP), individual AMP's, and the capital and operating budgets. The City is not behind the times with its asset management strategy, as it is primarily in the last 5 years that formal asset management planning has come to the forefront across Canada – some of the municipalities referenced in this report have also made significant strides in their asset management planning in the last year or two only.

With the work that has been done in 2016 by Administration, some of the pieces are in place to move forward on asset management planning, however further refinement and formality is required to ensure that there is a close correlation between asset management planning and capital and operating budgeting. To be clear, the contents of this report apply equally to the existing asset base of the City that is included in existing AMP's, as well as future additions to the asset base approved through the capital budget cycle.

With multi-year budgeting potentially coming into place in the near future, the importance of making strides in asset management planning (particularly with respect to connecting life cycle costs and operating impacts between the asset management plans and the capital and operating budgets) over the next 2 to 3 years is important. As part of the multi-year budgeting initiative, improvement will be necessary to closely tie capital expenditure planning to operational planning to understand short-term and long-term operating expense impacts. The evolution towards multi-year budgeting has significant ramifications on the areas discussed within this report and there is synchronicity between the multi-year budgeting journey and further refining the City's asset management planning.

This report is structured as a framework to assist the City in advancing from its current state to a more mature and advanced asset management framework that incorporates long-term financial planning and is directly linked to the capital and operating budgeting process. Within each area, Internal Audit (IA) has made observations based on the current state at the City, comparisons to existing leading practices across Canadian municipalities and recommendations for Administration to consider. Note that IA selected comparative municipalities who had made significant progress in their capital asset management, and generally had mature policies and an overall framework in place (i.e. 3 to 5 plus years).

- Section 3: Asset Management and Capital Planning Policies – IA discusses the need for overarching policies incorporating formal decision-making criteria and the need for incorporation of multiple-scenario life cycle costs into asset management plans.

- Section 4: Direction of Capital Asset Management – IA discusses the need for formal criteria to be developed to set out the roles and responsibilities that the Asset and Financial Management team at the City will have in ongoing asset management compared to the roles and responsibilities of the individual divisions.

- Section 5: Determine Impact of Capital Budgets on Operating Budgets including Life Cycle Costs - IA discusses the need for rigid enforcement of policy with respect to capital project submissions, particularly with respect to the inclusion of operating impacts and life cycle cost as well as increased transparency of reporting of operating impacts and life cycle costs in budgets.

- Section 6: Multi-Year Capital Planning – IA discusses synchronization of multi-year budget initiatives and multi-year capital planning process;

- Section 7: Present, Monitor and Report on Budgets and Projects - IA provides recommendations which discuss the need for development of performance measures and further refinement of, and reporting on, capital expenditure categories to increase the linkage between the asset management planning taking place and the capital and operating budgets.

- Section 8: Tracking Detailed Information for Maintaining and Replacing Assets – IA discusses the need for the tracking of detailed information as both a last piece to the asset management cycle and also an important first piece to beginning the cycle anew. The journey with the Roadways assets over the last 5 years is used as an illustrative example of asset management arising out of necessity to deal with significant deferred maintenance issues and now needing to mature to a more preventative, forward-looking asset management strategy with more sophistication and complexity.

The City has made significant progress in its asset management journey in 2015 and 2016 with the launch of their individual AMPs. The recommendations resulting from IA's assessment will assist the City in defining, describing and documenting life cycle costs and operating cost impacts, with the objective being an increased ability of Administration and Council to make decisions on capital spending.

1 – Introduction and Background

a) Asset Management Planning

Over the past number of years, municipalities across Canada have been unable to make all investments necessary to maintain their infrastructure – this issue is by no means unique to the City. Although most municipalities across Canada were facing this challenge, there were (and continue to be in many cases) limited options available to these municipalities in terms of funding this investment. Past decisions to underfund asset maintenance and repair of assets may have been made out of financial necessity, however these decisions resulted in significant deferred maintenance work.

Partly as a result of these challenges, asset management has come to the forefront in the last 5 years, with many municipalities across Canada adopting formal asset management strategies since 2010. There is an ongoing continued focus in this area across the country continuing into 2016 and 2017. One notable example is the Federation of Canadian Municipalities' "Leadership in Asset Management Program", which 12 municipalities participated in between 2015 and 2017, working together in the development of asset management policies and strategies. Participating municipalities ranged from small to large and included cities such as Melville, Edmonton, Ottawa, Vancouver and Windsor. Most recently, the City of Waterloo has undertaken the development of a comprehensive corporate asset management plan that required a core project team of 9 managers and directors across the organization in addition to 44 subject matter experts and support staff throughout the organization, as well as external consultants. Additional internal positions were created as a result of the asset management planning exercise and there were funds allocated of over $1 million for the project.

In 2016, the City launched its first Corporate Asset Management Plan (AMP), a key aspect of which was enabling both Administration and Council to make better informed and balanced decisions. The first steps undertaken with the Corporate AMP were to develop individual AMP's for eight major asset categories. The individual plans focus on what the City owns and the worth thereof, the current condition assessment, the desired condition, and the funding required to reach the desired condition. At the conclusion of those individual AMP's, the City's goal is to develop a master AMP that encompasses all assets that the City owns. This master AMP will be crucial as it will also allow for the City to adopt formal asset management and capital planning policies, which are currently not formally in place, to guide the recommended spending coming out of the AMP.

Asset management planning is a crucial aspect of this project as it feeds directly into the capital and operating budget process in terms of life cycle costs and operating cost impacts. Capturing those life cycle costs and operating cost impacts internally is critical to both the AMP process and the budgeting process, and incorporating those costs transparently into the capital and operating budget is of equal importance.

b) Capital and Operating Budgeting

The City's budgeting process is guided by Council Policy C03-001: The Budget Process. With respect to capital projects, C03-001 3.4 outlines the relevant guidelines which drive the City's capital planning and budgeting, which is the focus of this IA project. More specifically, in C03-001 3.4 b) iii), it states that for the estimation of project costs, for each capital project it "should indicate what impact the project will have on the operating budget (i.e. cost to operate and maintain the capital asset)". The inclusion of both "operate and maintain" is key as the cost to operate an asset would be the impact of that capital project on the annual operating budget going-forward, while the cost of maintaining the capital asset would be the life cycle costs associated with that capital project over its life, which in most cases will be a combination of operating and capital expenditures.

In the 2017 Approved Operating & Capital Budget for the City, there was a total approved investment in capital projects of $261.9 million, including Land Development. The total operating budget impact of capital investments identified in 2017 was a total of $1.6 million (or 0.6%) over the 2018 to 2020 period, of which 55% related to operating increases necessary for the operational success of the Construction and Demolition Waste Management Centre (i.e. Recovery Park). Excluding Recovery Park, the total operating budget impact of capital investments identified in 2017 was $0.7 million or 0.3%.

In the 2016 Approved Operating & Capital Budget for the City there was a total approved investment in capital projects of $228.8 million, including Land Development. The operating impact of capital investments identified in 2016 was a total of $1.4 million (or 0.6%) throughout the 2017 to 2019 period, almost 2/3 of which related to land development projects. The primary type of operating cost impact identified for the land development projects was increased park maintenance costs for new park developments. Excluding the land development projects, the total operating budget impact of capital investments identified in 2016 was $0.6 million or 0.3%.

	2017	**2016**
Capital investment (including land development)	$261.4 million	$228.8 million
Operating costs impact ($)	$1.6 million	$1.4 million
Operating costs impact (%)	0.6%	0.6%

Through IA's review of the capital budget, a disclosed operating cost impact of 0.6% (or 0.3% excluding land development projects) appears to be low and does not capture the full operational impact of these capital investments, which are in excess of $200 million in both 2016 and 2017. This report, particularly Section 5, will highlight this issue and its impacts in further detail and provide related recommendations.

c) <u>Life Cycle Costs and Operating Impacts</u>

Life cycle costs represent the total recurring and one-time/non-recurring costs required to be incurred over the full life span of an asset (i.e. the total cost of ownership or "cradle to grave" costs). The purpose of assessing life cycle costing is to make informed, data-based decisions regarding the most cost-effective options that the City has at its disposal in terms of owning and operating its assets, including maintenance and ultimate replacement. Simple examples would include lease vs. purchase decisions as well as maintenance vs. replacement decisions. Operating impacts in the context of capital budgeting represent a subset of an asset's life cycle costs.

There is an important distinction to be made between the transparency of life cycle costs and operating costs within the capital budgeting process and the degree to which those costs are captured in the underlying information. The primary aims of this project are to a) assess the underlying framework which the City is using to capture life cycle costs and operating cost impacts, including the connection between the asset management plans and the annual budget and b) assess the extent to which those same life cycle costs and operating cost impacts are being transparently captured in those same documents. IA's report will include an analysis of the current state and will also consider leading practices in place both from a theoretical perspective and a practical perspective (i.e. leading practices in place at other Canadian municipalities).

Based on the observations made, IA will bring forward recommendations to Administration that would have a positive impact on both the ability of the City to factor in operating cost impacts and life cycle costs and incorporate those costs transparently into the asset management plans and annual budgets. Note that the project is not intended to be a full analysis of the Asset Management Planning in place at the City of Saskatoon, but includes analysis and comments on that topic relevant to the subjects of operating cost impacts and life cycle costing. The undertaking of comprehensive asset management planning is a multiple-year exercise requiring significant organizational investment and often, the utilization of external resources, and while this report contains some recommendations intended to enhance the City's existing asset management planning documentation, it by no means contains a full analysis of the subject or a full roadmap to implementation of more fulsome asset management planning.

2 – Approach and Framework

a) Approach

IA reviewed existing practices with respect to capital budgeting, operating cost impacts and life cycle costing with relevant contacts from Asset and Financial Management, Transportation and Utilities, and Community Services. IA performed more detailed interviews and walkthroughs to assess the current state of these same areas with relevant representatives from Facilities and Fleet and Major Projects. The relevant source documentation in place for IA to consider while performing these procedures were the existing Corporate AMP, the drafted and published individual AMP's, and leading practices in place in relevant literature and at other Canadian municipalities.

b) Framework

IA's examination of current practices and analysis of applicable leading practices to be incorporated at the City is performed in light of a framework. The framework provides a clear lens from which to view the City's overall asset management and budgeting practices from the top-down, with the concept being that if fundamental areas are omitted from the first and highest stages of the process, the ability to properly capture and transparently report operating cost impacts and life cycle costs will be significantly reduced. The ability to successfully implement and practice each area of the framework will assist the City in meeting its asset management goals and in turn providing Administration and City Council with the information needed to make better informed and balanced decisions come budget time, particularly with respect to capital budget items. The framework used to present this report is based on a review by IA of leading theoretical and practical asset management and represents the following areas:

Step 1 - Discussed in section 3, Pg. 9 — *Asset Management and Capital Planning Policies*

Step 2 – Discussed in section 4, Pg. 19 — *Direction of Capital Asset Management*

Step 3 – Discussed in section 5, Pg. 20 — *Determine Impact of Capital Projects on Operating Budgets including Life Cycle Costs*

Step 4 – Discussed in section 6, Pg. 23 — *Multi-Year Capital Planning*

Step 5 – Discussed in section 7, Pg. 24 — *Present, Monitor and Report on Budgets and Projects*

Step 6 – Discussed in section 8, Pg. 30 — *Tracking Detailed Information for Maintaining and Replacing Assets*

3 – Asset Management and Capital Planning Policies

a) <u>Developments in the City's Asset Management Planning in 2016</u>

Asset management and capital planning policies are critical to achieving improved integration and transparency with respect to asset life cycle costing and identification of operating cost impacts. Having such policies in place will ensure consistency in future AMP's and will allow the City to continue to build on the progress it has made to-date. These policies will assist in further defining and formalizing the work that has been done to-date and can be designed to incorporate recommendations made within this report. Formal capital planning policies assist in demonstrating thorough fiscal management and formal asset management policies set the tone for what is expected of internal stakeholders for all assets currently utilized by the City and any assets that will be acquired and/or constructed in the future. These policies direct capital planning and budgeting and assist in ensuring that all necessary considerations are factored into the capital planning process. Finally, these policies directly assist in the cost-effectiveness of sustaining infrastructure over its life span. The importance of these policies is further highlighted in Section 3b) below ("Policy Fundamentals").

As noted in Section 1, in 2016 the City launched its first Corporate Asset Management Plan (AMP), a key aspect of which was to enable both Administration and Council to make better informed and balanced decisions. The first steps undertaken with the Corporate AMP were to develop individual AMP's for eight major asset categories. At the conclusion of those individual AMP's, the City's goal is to develop a master AMP that encompasses all assets that the City owns. The individual plans are to focus on what the City owns and the worth thereof, the current condition assessment, the desired condition, and the funding gap required to reach the desired condition.

IA noted that while the City is making progress on its AMP's and addressing the majority of best practices through the AMP's currently being developed, key elements missing from the current asset management plans are clear definition, development and reporting of life cycle costs and clear criteria with respect to prioritizing future spending. This aspect of the AMP is critical to enabling Administration and Council to make informed and balanced decisions.

City of Saskatoon AMP Summary

The table below captures a summary of critical components included in the currently published individual AMPs. Note that all AMP's were generally consistent in key areas (indicated by the "Y") aside from the fact that only the published AMP's for Bridges and Roadways specifically contained detailed information relevant to considering life cycle costs that could potentially be leveraged going forward, in capital and operating budgets and otherwise.

Area of AMP	Worth of Owned Assets	Current Condition**	Expenditure Level Required*	Annual Funding Gap	Desired Condition of Assets**	Sufficient Life Cycle Cost Detail
Transit	Y: $81.9 million	Y: 11.9 yr. fleet age	Y: Level B	Y:$6.0 million	Y: 7.0 yr. fleet age	N
Parks	Y: $85.8 million	Y: Poor to Fair	Y: Level A-C	Y: $3.0 million	Y: Fair to Good	N
Sidewalks	Y: $722 million	Y: 84.6 SCI	Y: Level B	Y: $1.0 million	Y: 85 to 100 SCI	N
Bridges	Y: $948 million	Y: Varies	Y: Level B	Y: $4.5 million	Y: Varies	Y
Water & Wastewater	Y: $6.23 billion	Y: Varies	Y: Level B	Y: $nil	Y: Varies	N
Roadways	Y: $2.82 billion	Y: 74.3 PCI	Y: Level B	Y: $1.1 million	Y: 80 to 85 PCI	Y

*Level A represents an expenditure level designed to result in an asset condition of "Getting Better Quickly – Sufficient expenditures to keep asset in the condition specified by City Council and to increase asset condition/value quickly over time". Level B represents "Getting Better – Sufficient expenditures to keep asset in top condition and to increase asset condition/value slowly over time". Level C represents "Maintain Assets in Current Condition – Sufficient expenditures to keep asset in constant condition over time".

**SCI and PCI refers to Sidewalk Condition Index and Pavement Condition Index respectively.

Key aspects noted by IA with respect to life cycle costs within each of the AMP's are as follows:

- Transit – useful information to incorporate with respect to maintenance and life cycle costs would reflect "if the status quo is maintained, what are the annual maintenance and life cycle costs associated with the current fleet based on the actual average age of 11.9 years as compared to the maintenance and life cycle costs associated with the desired average fleet age of 7.0 years". For example, the City of Ottawa conducted a review of their fleet maintenance costs (for their overall fleet, not just transit) and found that for vehicles exceeding their suggested useful lives, the maintenance costs were 23% to 37% above those costs for vehicles within their suggested useful lives. In that case, it was suggested that maintenance costs for over-age vehicles were 30%, and with an annual fleet maintenance budget of $12 million the City of Ottawa estimated that it was incurring additional annual maintenance costs of $1.3 million for over-age vehicles. This same information would be pertinent to decisions to be made at the City of Saskatoon.
- Parks – sufficient information is contained in the AMP regarding the potential plan to address the funding gap and the costs required to do so. Were the plan to include further details on life cycle costs, there would be a clear record of the annual life cycle costs associated with the current infrastructure in its current condition compared to the annual life cycle costs associated with the infrastructure in its desired condition.
- Bridges – information is contained in the AMP regarding the estimated cost of maintenance assuming all structures in new condition, as well as three known large projects anticipated between 2021 and 2025. This is an example of an area where the fundamental life cycle costing information appears to be identified, and the next step is to more clearly and transparently incorporate that information into the capital and operating budget.
- Water & Wastewater – the area represents the highest investment in infrastructure of the AMP's prepared to-date. There is limited information within the AMP with respect to life cycle costs in order for a user of the AMP to fully understand the life cycle costs associated with the Water & Wastewater infrastructure or to draw a direct connection between those costs and items within the operating and capital budget of the City.
- Roadways – the potential funding required for good condition levels from 2017 to 2021 is identified in the AMP, as is the fact that the current capital funding dedicated to roads is sufficient to provide for an average treatment cycle of 18 to 20 years. This is an example of an area, similar to Bridges, where the fundamental life cycle costing appears to be identified, and the next step is to more clearly and transparently incorporate that information into the capital and operating budget.

In each instance above, the life cycle costs would include both repair and maintenance of existing assets as well as the replacement of existing assets. If these were captured in detail in the AMP, there would be a direct connection between the AMP's and the capital and operating budgets on an annual basis and there would be clarity each year on life cycle costs.

b) <u>Policy Fundamentals</u>

Taking a more fundamental step back, although the City has an overarching long-term strategic objective in place, there are no formal asset management policies related to the maintenance and replacement of assets, stakeholder roles and responsibilities or expectations regarding service life of the assets. Asset management policies require further refinement in order to incorporate the items just mentioned as well as defining the requirements for each AMP that the City develops, in order to ensure that they are standardized and can properly be incorporated into the master AMP that the City intends to develop. These policies can assist in providing sustainable infrastructure through a process which includes (over the life of the asset):

- A description of how the City will approach capital planning, including how departments and divisions should collaborate to prepare a plan that best meets the operational and financial needs of the city;
- A definition of various types of projects and components (ranging from capital improvements to full-scope capital projects);
- A description of the role of all internal and external stakeholders in the process; and
- An identified decision making criteria as it relates to the capital planning process including a structured process for capital project prioritization and allocating limited resources (further details in Section 3c) below).

IA notes that policy C03-001 (The Budget Process) captures certain of the aforementioned elements. The policy clearly states its purpose is to "ensure an orderly and timely translation of civic programs into resource, expenditure, and revenue requirements and to provide a basis for enforcing accountability for the proper and prudent management of public funds". The policy speaks to concepts of accountability, performance, measurement and evaluation of reporting as well as determining project costs and overall responsibilities. However, IA notes that The Budget Process policy is at the surface level and that policies alone without procedures are difficult to carry out and implement. IA notes that although detailed procedures which formally supplement policy C03-001 – The Budget Process do exist, they have not been updated since 2003. These procedures specifically describe how to carry out tasks prescribed by the policy. The policies are the guiding principles used to set the direction for asset management and capital planning whereas the procedures detail the particular method of accomplishing what is being described in the policy. Awareness of and timely updates to procedures as well as the accountability placed on departments to utilize the procedures will provide the platform for implementing the consistency required to decrease variations from occurring, thereby standardizing asset management and capital planning tasks across the City.

Having these formal asset management policies in place will assist the Asset and Financial Management team of the City in creating more accountability for the individual teams preparing AMP's and in allowing for more transparent presentation and monitoring of AMP's and the underlying life cycle costs and operating cost impacts**.** Having formal decision-making criteria in place for capital project prioritization and allocating resources will assist Asset and Financial Management in reducing uncertainty among Administration and Council come budget time by building more diligence and clarity into the decisions being put forward. The City's reserve policies are quite descriptive in defining the types of projects that each reserve funds, resulting in areas such as traffic safety improvements, sound walls, and roadways being fairly sophisticated in their individual prioritization processes. However other areas would not have that same level of sophistication and some common ground is required across the City to achieve a synchronized and systematic capital project prioritization process each year.

More fundamentally, further asset management and capital planning policies will assist in Asset and Financial Management enforcing more consistent reporting by individual divisions leading to the build-up of the Capital and Operating Budgets. As noted in Section 1, there are low levels of operating cost impacts being formally identified in the Capital Budgets. While in some cases there are certainly capital projects which legitimately have no operating cost impact, in other cases the operating cost impact is either being a) not identified or b) identified but not captured transparently in the budget. Some examples of these projects include the following (IA acknowledges that for those areas which have capital costs in future budget years identified, there would likely be efforts made by Administration to refine the related capital budget and operating cost impacts in those future budget years):

Project	Capital Cost 2017	Capital Cost 2018	Capital Cost 2019	Capital Cost 2020	Capital Cost 2021	Op. Costs identified in the period
T&U – Satellite Yards	$ 200,000	$ 6,082,000	$ 50,000	$ 100,000	$ 2,401,000	None identified
LD – Road Extension	$ 0	$ 4,392,000	$ 0	$ 0	$ 0	None identified
T&U – Add. Busses	$ 130,000	$ 0	$ 0	$ 0	$ 0	None identified
AFM – Power Back-up	$ 1,500,000	$ 0	$ 0	$ 0	$ 0	None identified

For the capital projects noted above, the unidentified operating costs could result in the total monetary impact of the capital project being understated. For example, IA notes that the $1.5 million power back-up capital project is for the installation of a generator to be used at City Hall in the event of a power outage. Although there have been no operating costs identified, fuel, maintenance, other operating costs and eventual significant repairs and/or replacement will undoubtedly be necessary. As a result, the information included in the capital budget does not provide the complete financial implications of the project to be taken into consideration in the decision process of whether to approve, and how to fund, the capital and operating impacts of the project. Similarly, for the $4.4 million road extension capital project identified above, the extension of a road results in adding more lane kilometers to the roadway network, for which there will likely be several operating cost impacts such as increased road maintenance, street sweeping and snow and ice removal.

Part of the solution to this issue is improved communication between Asset and Financial Management and other departments and divisions which provide inputs into the operating and capital budgets (i.e. at the divisional level, such as Facilities and Fleet (FF), the indication from IA's interviews and walkthroughs is that operating impacts are frequently built into funding requests however do not always appear reflected in the capital budget). Communication of these operating impacts and life cycle costs is critical not only to transparent budgeting but also to the ability of the individual divisions to achieve the needed level of service from the asset base. Please refer to Section 5 of this report for more detailed discussion of capturing of operating cost impacts and life cycle costs.

Interviews and walkthroughs conducted with Major Projects and Facilities and Fleet by IA indicated that there is opportunity for more collaboration between Asset and Financial Management and the individual divisional stewards of the assets in terms of communicating the required operating impacts and life cycle costs for future and capital projects, as there may be instances in the current process where levels of service communicated are not sustainable based on current and projected funding levels**.** These potential gaps between the spending required to attain/maintain a level of service and the planned spending are best communicated in the AMP's. The recently approved AMP for the City of Waterloo (referenced throughout this report) provides an excellent example of how to illustrate these gaps in a fashion that is transparent to the users of the document. The top two figures show the target spending recommended in the AMP and the resulting asset performance and condition for the City of Waterloo's assets as a whole as opposed to the currently budgeted spending and its impact on asset performance and condition in the bottom two figures.

Figure 2 - Annual Capital Expenditures and Average Performance of All Assets for the Target Scenario

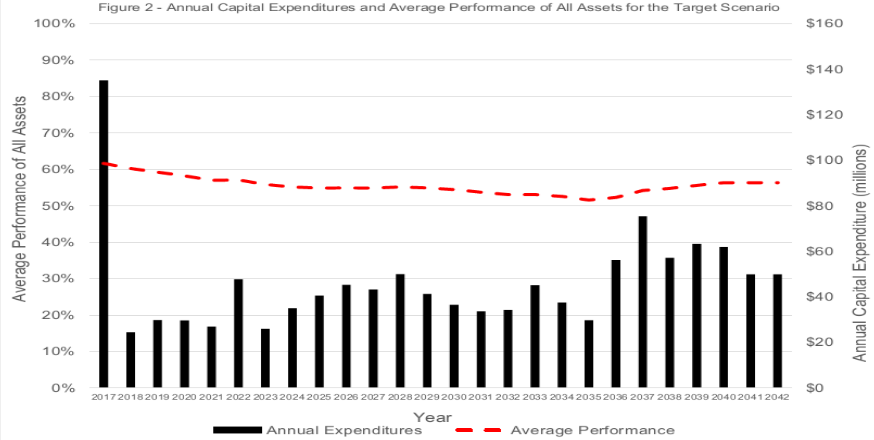
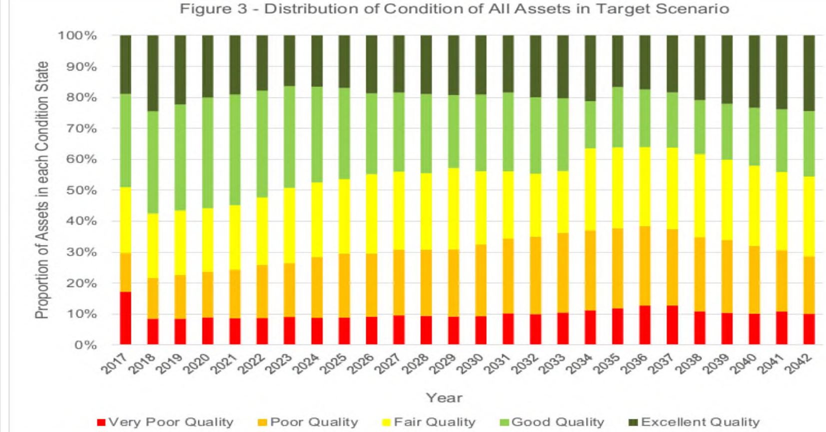
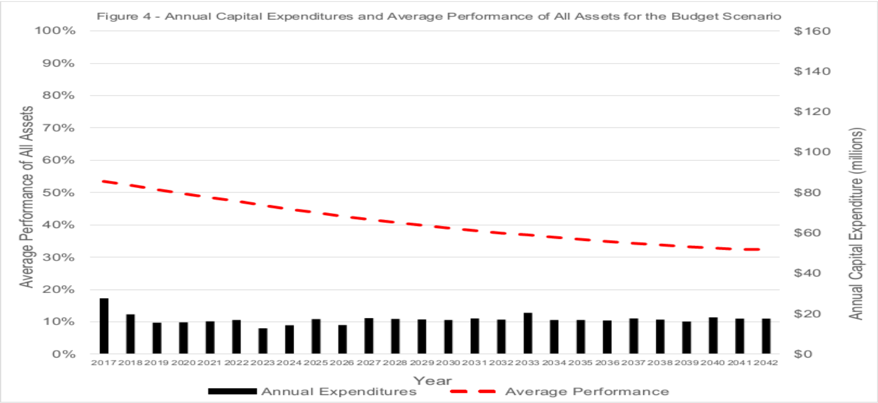
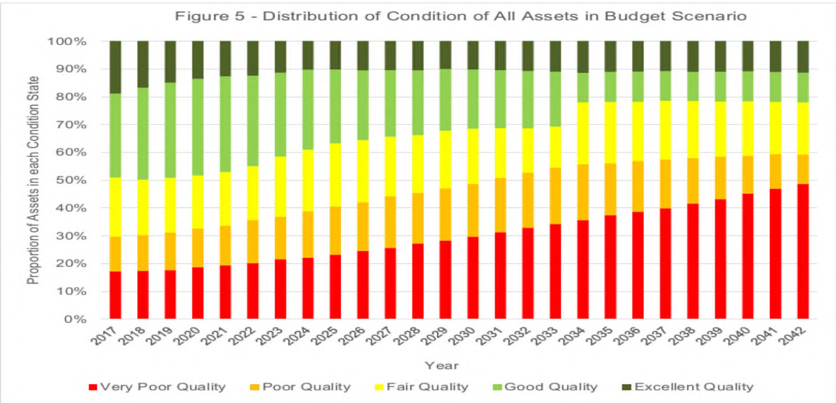


Figure 3 - Distribution of Condition of All Assets in Target Scenario







c) Capital Project Prioritization and Allocating Resources

The City of Saskatoon has a significant number of capital reserves which assist it in financing approved capital expenditures. One of the major advantages of this is that reserves dedicated to the replacement of existing assets eliminate the need to weigh those projects against other capital projects for general capital funds. Bylaw 6774 ("The Capital Reserve Bylaw") is quite prescriptive in the purpose, means of funding, and types of expenditure related to each of the over 50 capital reserves. For example, the "Civic Buildings Comprehensive Maintenance Reserve" (CBCM) is quite specific in the fashion in which it is funded and the types of expenditures requiring identification in order to be funded by the reserve. The one reserve which is not as prescriptive is the "Reserve for Capital Expenditures" (RCE), which by design is quite non-specific, allowing for both the funding of the reserve and the spending from the reserve to be quite discretionary. The intent of the RCE is to continue to fund projects that are discretionary and that are not part of the normal operations of the City.

The City's current capital project prioritization process as it relates to spending from the capital reserves has some formal elements and it is supported by an underlying logic in the decision-making process. There is a consideration of needs in the process that takes into account factors such as replacement schedules, condition assessments, expansion or growth demands, and other inherent criteria. The institution of a more formal prioritization process that would be consistent across the various divisions and departments of the City is less important for capital projects that are funded through existing reserves, including those projects being funded via the discretionary RCE, which as noted above funds all capital projects that do not have a dedicated funding source. IA notes that a fairly detailed capital prioritization process for the RCE was presented to City Council by Administration in 2008 and IA's understanding is that City Council at that time decided not to move forward with the process. The rationale was that given the relatively small spending from the RCE, there was not significant benefit to implementing such a detailed, formal capital prioritization process for it. The same would generally hold true when considering capital projects that are funded through one of the specific reserves – based on the criteria in place per the bylaws for each reserve, there is sufficient experience and knowledge in place within the individual divisions responsible for making decisions on capital projects to be funded within the reserves to enable proper prioritization (where applicable). As such, applying an overarching capital project prioritization process would not be a meaningful addition for capital projects funded through existing capital reserves.

There is, however, an area of the City's capital spending that IA believes could benefit significantly from a more rigid, formal capital project prioritization process and which could result in further accountability and transparency with respect to resource allocation. As part of its long-term financial planning, the

City ensures that funding plans are in place prior to moving forward on major capital projects, which have sources of funding that are over and above the reserves in place. City Council has approved a number of funding plans to-date to assist in moving forward a number of major capital projects, examples of which include: Roadway Financial Management Strategy, Major Recreational & Cultural Facilities Funding Plan, Gas Tax Allocation Plan, Civic Facilities Funding Plan (CFFP) and Major Transportation Infrastructure Funding Plan (MTIFP). There could be additional funds approved in the future as well for areas where supplemental one-time funding is needed over and above existing reserves. The application of a more formal priority-setting method for this aspect of the capital budget could provide additional and better information for decision-making and assist further in providing justifications for decisions.

While City Council priorities serve as an underlying evaluator for items in the funding plans and/or the 5-year capital budget, there is room to incorporate a more detailed and documented capital project prioritization process. This concept would be consistent with the current multi-year budgeting initiative as well, as the importance of selecting the right projects for the "right reasons" is heightened in a multi-year budgeting cycle. One suggested area of improvement from IA's Multi-Year Budgeting report was to "Design an effective method to allocate and deploy capital and make investment decisions over a Council term".

When making decisions regarding projects to be paid from sources such as the New Building Canada Fund and the Gas Tax Fund, it would be highly beneficial to Administration and City Council to have a documented set of rationale and criteria in place to support the projects chosen. This would be consistent with, and supplementary to, the "Federal Infrastructure Funding Strategy" report that was presented by Administration to the Governance and Priorities Committee of City Council in April of 2016. There are many types of projects available to be funded by the Gas Tax Fund, some examples of which might include local roads and bridges, public transit, solid waste, brownfield redevelopment, sports infrastructure, and recreational infrastructure. Note that these are examples only; as the City applies for already funded projects and then redistributes the existing funding, it would not be restricted to the types of projects provided as examples. All of the Gas Tax funding received under the initial Gas Tax program (from 2005 through 2014) was dedicated to transportation projects. When weighing decisions within the MTIFP, it would be beneficial to have a documented set of rationale and criteria in place to support the projects chosen. Current projects funded via the MTIFP include interchanges, contributions to the Bridge Major Repair Reserve, and an accelerated transit bus replacement program.

Items such as fire halls, recreation facilities, and libraries continue to be a challenge, as do larger-scale projects stemming from growth considerations such as City Centre and North Downtown, and Bus Rapid Transit. The use of a common set of rationale and criteria in place would be beneficial in terms of evaluating the spending on these items against other capital project needs. The use of this rationale and criteria could become a component of the funding plan itself, or a supplement to the funding plan, in order to increase accountability and transparency with respect to resource allocation. Each funding plan currently has a list of proposed projects, the source(s) of funding, and the cash flow or phase-in of operating budget dollars for operating impacts, capital or for debt payments. The list of proposed projects could include details on the ranking of the projects against the designated criteria and even which projects may not have made the funding plan as the result of not meeting certain criteria. This could also provide documented clarity in the funding plan regarding the rationale for the projects being proposed for adjustment or elimination.

In the City of Saskatoon's "Long-Term Financial Sustainability Plan: 2015-2025" there is discussion of recommendations from a 2013 Canada West Foundation Report including that …"priority should be given to infrastructure that enhances economic performance", "government should encourage innovative approaches to the design of public infrastructure", and "governments should not focus exclusively on new infrastructure at the expense of re-investment in existing infrastructure". The Long-Term Financial Sustainability Plan indicates that these recommendations should be considered as decisions are being made regarding new investment into the City's infrastructure, therefore these broad recommendations could serve as the baseline for the more detailed rationale and criteria to be developed.

Risk is a fundamental consideration when it comes to project prioritization. Project prioritization can be attributed to the risk that the project represents if it does not move forward. A more simple quantification of risk can be formed when assessing a given portfolio of capital project options by considering only two factors associated with the asset in question: a) the probability of failure (i.e. what is the physical condition of the asset) and b) the consequence of failure (i.e. if the asset fails, what is the effect). An example used in the City of Waterloo asset management plan is the failure of the air conditioning system at a small recreation center leading to program and service disruptions for a small number of residents and clients (low consequence) versus at a large recreation center. More complex examples of decision-making criteria could be as follows and different weights could be applied to each depending on the City's preferences:

- Degree of direct impact on health and safety;
- Legislative and/or legal requirements;
- Impact on sustainability;
- Impact on asset integrity;
- Impact on program integrity and delivery;
- Financial considerations;
- Timing and implementation considerations; and
- Community interest/impact.

Currently existing individual asset management plans speak to the City's asset inventory, valuation, replacement costs, level of service and condition assessments. One element to be incorporated that would be crucial to the City's ability to implement clear decision-making criteria related to the capital planning process (to allow for a more structured process for capital project prioritizing and allocating limited resources) would be asset risk assessments. In each individual AMP, as well as the master AMP, this would require determining how critical the asset groupings are to the City and the likelihood and consequence of asset failure. This will assist the City in identifying the true value of the asset to its ability to effectively deliver services to citizens and will allow for the decision process outlined in the paragraphs above to occur effectively. IA notes that as the City continues to explore the move towards a new ERP system, it will be critical to ensure that the system has direct capabilities, or the ability to interact directly with, tools and software that will assist in ensuring asset management plans are accurate and timely. The ability of a new ERP system to enhance the City's asset management is crucial.

Formal decision-making criteria for capital project prioritization will supplement the formality already existing in the Capital Reserve Bylaw with respect to the purpose, means of funding and types of eligible expenditures and will assist in reducing uncertainty among Administration and Council come budget time by building more diligence and clarity into the decisions being put forward.

Included in the City's asset management and capital planning policies and/or the master AMP should be identified decision-making criteria related to the capital planning process to allow for a more structured process for capital project prioritization**.** This process would be akin to the evaluation of an RFP or a similar exercise in which clear criteria are developed to eliminate bias and subjective factors from the process. The City of Ottawa has such principles in place (see Appendix A) and the City of Edmonton is continuing to enhance its risk assessment tools, which are used to rank its infrastructure rehabilitation needs and determine how to allocate funds optimally across its various infrastructure assets to ensure long-term value.

i) <u>City of Edmonton Risk Assessment Process Description</u>

The City of Edmonton claims to be the first City in Canada to have developed a comprehensive inventory of its infrastructure assets to use for evaluating the state and condition of diverse infrastructure assets. The City of Edmonton has a risk assessment methodology in place to assist in determining the level of risk associated with infrastructure failure. By using information from its standardized rating system, Edmonton's Office of

Infrastructure and Funding Strategy can forecast future condition and risk of an asset in relation to various renewal (i.e. rehabilitation and replacement) actions taking a balanced approach integrating social (i.e. health and safety), environmental (i.e. impact on the environment), and economic (i.e. cost of failure) objectives into the decision-making process. Edmonton's risk methodology does not attempt to address uncontrollable factors of failure (i.e. external random factors, such as a tornado).

The City of Edmonton groups assets according to similarities in performance and deterioration characteristics and then the controllable deterioration of each asset type over time (depending on a given rehabilitation strategy) is determined. Their assets are grouped into one of Transportation, Environment and Safety, Social Infrastructure, and Corporate Infrastructure and then divided further into 14 infrastructure subgroups. This standardized rating system enables Council and Administration to have consistent information when comparing the condition of separate infrastructure elements and in establishing funding priorities. Risk levels are measured using numerous indicators such as:

- Portion of an asset deemed to be critical (expected to fail) – those assets that have deteriorated past expected service life;
- Impact of failure of an asset – measured by social, environmental, and economic indicators and factoring Edmonton's objectives;
- Overall condition – categorized by either A (very good) through E (very poor) using the standardized rating system; and
- Severity – reflects the overall likelihood of asset failure, the expected amount of failure and the impact of the failure on Edmonton.

The City of Edmonton believes that risk assessment provides a uniform approach for dealing with different types of assets and has the ability to compare one type against another type. Their model is designed to help predict the impact of different funding scenarios in the context of overall infrastructure needs, enabling them to determine where available funding can provide the most benefit. Their intended result is an unbiased and objective measure of the seriousness of the asset and the ability to prioritize funding to deal with the most critical assets first.

The culmination of the above for the City of Edmonton is its Risk-Based Infrastructure Management System (RIMS), a custom made tool that assists in the ranking of rehabilitation needs and the allocation of renewal funds across the various infrastructure assets to ensure long-term value. RIMS includes methods for simulating asset deterioration over time by incorporating various rehabilitation and renewal scenarios and enables the testing of various funding strategies to assist Administration in determining how certain funding levels impact infrastructure. RIMS is used in the City of Edmonton's capital budget process to assist Edmonton in "making the most of every dollar invested with the limited funding available".

d) Overall Guidelines Based on Municipal Asset Mix

Like all municipalities, the City has a large and complex asset mix, making it difficult to discuss lifecycle expenditure requirements at a high level (i.e. before moving into the individual functional areas of the City and its asset base) other than to use average spending level based on overall asset value as a guideline. The City of Waterloo, with examples referenced in this report, has taken steps to quantify this more accurately for purposes of their asset management planning and budgeting. There are guidelines in existence which provide a general idea of the appropriate amount of spending needed for overall lifecycle maintenance of an asset base – for example the American Public Works Association has published guidelines allocating a minimum of 2% to 4% of current replacement value to provide for renewal of facilities, while other published guidelines refer to a range of 1.5% to 2.5%. For its overall asset base, the City of Waterloo has estimated that it spends at 1.4%, while the City of Ottawa has targeted its figure for facilities only at 1.5%.

Currently, Facilities and Fleet (FF) at the City obtains condition assessments of their facilities-related infrastructure every 5 years or less (i.e. each asset owned and within the scope of FF will have a condition assessment at least every 5 years). This guides FF's capital replacement program. FF is currently developing their AMP document, which will include details on the various maintenance and restoration treatments that need to be applied to their facilities to achieve desired service life. The AMP is also intended to describe how condition assessments are conducted and the technical requirements integrated into the process. In discussions with FF, with respect to the CBCM, the funding in that capital reserve directly impacts the ability of FF to properly maintain and replace the assets which they have stewardship over. The intent of IA's comments in this area is not to assess specific funding levels in place related to FF and the CBCM, but to use them to illustrate the need for development of guidelines for estimating lifecycle cost needs for groups of assets and the City as a whole.

e) Other Leading Practices from Canadian Municipalities

Further examples of overarching asset management and capital planning policies can be found in the municipalities of Ottawa, Windsor, Calgary and Waterloo.

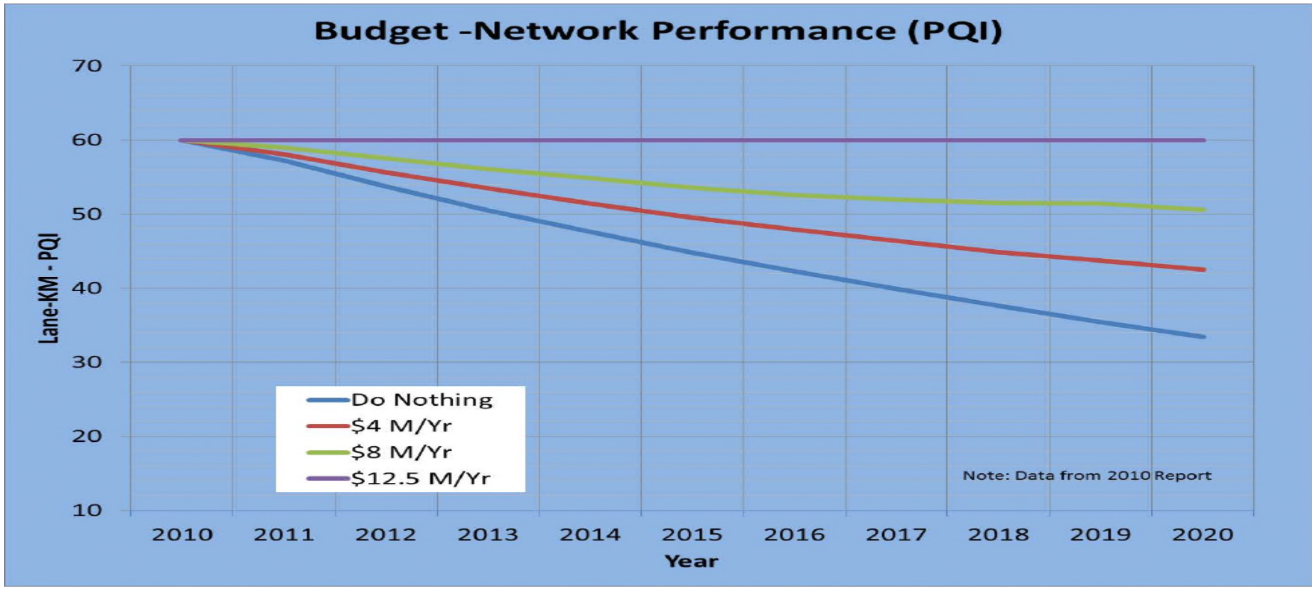
City of Ottawa - The City of Ottawa approved a comprehensive asset management policy in 2012. The policy has guided the City of Ottawa towards making asset related decisions that are more intentional, anchored on sustainability, and take into consideration the City's risk and fiscal constraints. As a result, the City of Ottawa has adopted a risk-based decision making process (Appendix A) that considers the likelihood of asset failure and the consequence of a failure with regards to impacts on safety and levels of service. This could serve as a valuable reference for the City of Saskatoon as it attempts to formalize its decision making criteria. Currently the City Council and Civic Surveys have significant roles in determining priorities and it would be prudent for Administration to incorporate more formal risk-based decision-making criteria into the asset management planning process in order to provide more systematic means of making investment decisions.

The City of Ottawa supplements their comprehensive asset management planning with detailed long-range financial planning. The long-range financial planning directly takes into account the capital funding gaps and requirements that are determined within the asset management plans and provides significant detail regarding capital funding and capital expenditures that is essential to linking the asset management plans and the budgets. Further detail on relevant practices that could be applicable to the City of Saskatoon is included in Section 5.

City of Windsor - The City of Windsor released a comprehensive asset management plan and strategy in 2013, which included a corporate-wide asset management plan overview as well as states of local infrastructure, desired levels of service, and asset management strategies for each major area within the City of Windsor. This brought together all key elements of the City of Windsor's infrastructure in one document and established the strategy to be followed – as the City of Saskatoon works toward their master AMP, the example of the City of Windsor will serve as a valuable reference. The City of Windsor overarching AMP influences the financial forecasts within the long-term financial plan and the decision framework and infrastructure needs identified in the AMP form the basis on which future capital budgets are prepared.

City of Calgary - The City of Calgary developed an overarching asset management policy in 2011, which led to the development of a supporting asset management strategy and governance in 2012 which outlines governance and the various products and deliverables of the corporate asset management program. The Asset Management Plan itself is a byproduct of the policy and the strategy and it integrates business unit asset management plans from group across the City of Calgary, which are continuing to develop stand-alone asset management plans.

City of Waterloo - The City of Waterloo developed a detailed asset management plan that was most recently updated in November of 2016. The plan was initially developed in 2014 as an interim plan and from a financial standpoint presented financial information for 2015 and the following 10 years. At that time a plan was put in place to develop a more comprehensive asset management plan covering a significantly increased scope of assets and addressing full lifecycle costing by 2016. The asset management plan is quite advanced in terms of presenting the capital expenditures required over a 25 year period to achieve the targeted average performance of assets over that period and the distribution of the condition of all assets in that target scenario (i.e. proportion of assets that are expected to be very poor quality, poor quality, fair quality, good quality and excellent quality). There are corresponding illustrations to show what currently budgeted capital expenditures will achieve in terms of average performance of assets. The asset management plan includes detailed illustrations of the impact of different maintenance levels on the condition of certain assets (i.e. the implication of spending between $0 and $12.5 million annually on roads and the implications for the Pavement Quality Index as shown in the figure below) in order to facilitate discussion amongst Council and Administration.



f) <u>Recommendations</u>

#1 - IA recommends that when the City develops its asset management and capital planning policies (including a master AMP), it incorporate fundamental aspects of asset management planning as outlined above and take into account leading practices from municipalities such as Ottawa, Windsor, Calgary and Waterloo, which have recently undergone such initiatives.

Supplement to recommendation: for clarity's sake, the fundamental aspects of asset management planning outlined above include:

- Clear definition, development and reporting of life cycle costs, including operating cost impacts, with a clear link to annual budget documents;
    - Also incorporating the consideration of multiple scenarios (i.e. ongoing maintenance costs with ideal service levels in place versus ongoing maintenance costs with less than ideal service levels and/or average asset useful lives).
- Formal policies related to maintenance and replacement of assets including stakeholder roles and responsibilities and service life expectations;
- Personnel accountable for asset management (i.e. departmental and divisional collaboration required);
- Create awareness of, make timely updates to and place accountability on departments to utilize detailed procedures which supplement the overarching Council Policy C03-001 "The Budget Process"; and
- Consideration towards determining overall guidelines for spending by asset category to provide benchmarks for high-level lifecycle budgeting.

#2 – IA recommends the incorporation of formal risk-based decision making criteria be incorporated to allow for a more structured process for capital project prioritization and the allocation of limited resources. These criteria would primarily be applicable to major capital projects that are funded outside of the Capital Reserve Bylaw. We recommend the City take into account leading practices from municipalities such as Edmonton, Ottawa and Waterloo as referenced and illustrated in this report.

Supplement to recommendation: as noted earlier, a capital budget prioritization discussion paper was developed (primarily with respect to the RCE reserve) in 2008. The content of the discussion paper could be a strong starting point for re-visiting this topic, particularly when considered together with the leading practices referenced within this report. The discussion paper discusses the concept of separating projects into categories (i.e. core projects, essential projects, and discretionary projects) and details criteria within each of those 3 categories. The discussion paper then further details a point system that could be utilized for prioritizing the projects within the categories, awarding points for various items including the following: public health/safety, City Council commitments, service delivery, fiscal impact, project interdependence, severity of foregoing project, and conformity with strategic plans/policies.

4 – Direction of Capital Asset Management

a) Direction of Capital Asset Management

The direction of capital asset management at the City is driven by a combination of Council, the Leadership Team, and the individual stakeholder groups charged with the stewardship of their asset categories. Within the Asset and Financial Management department, a combination of the Finance and Financial Planning divisions are charged with overall coordination of the individual AMP's. This can present challenges in that, unlike certain other municipalities that have been explored in this report, there is no dedicated team that is charged solely with the mandate of asset management, but rather it is a responsibility that is layered into existing divisions within the Asset and Financial Management department.

Proper direction of capital asset management across the City requires those finance personnel with responsibility for capital asset management to work with multidisciplinary team members including engineers and project managers to develop AMP's, determine capital budgets and make funding allocation recommendations.. This multidisciplinary and collaborative working relationship is ongoing in nature given that capital assets have a prolonged impact on operating budgets.

One of the challenges of achieving this City-wide is that out of necessity it is done on a division by division basis, and there is low consistency in how capital asset management and AMP's are being done between divisions. The level of integration both within the individual divisions and between those divisions and the responsible finance personnel varies depending on the level of sophistication and buy-in existing at the divisional level with respect to asset management. For example, Roadways has more formal documentation and planning in place as a result of the exercise carried out leading up to the implementation of the dedicated road levy and the significant ramp-up in attention to the Roadway assets that followed, which assisted in the development of the 2016 Roadways AMP. Parks and Transit on the other hand have taken a higher-level, average age approach within their asset base which, while sufficient to start the asset management planning process in 2016, may not be sufficiently detailed to achieve continued AMP initiatives going forward due to the limited information on future projected life cycle costs, and the varying impacts these life cycle costs might have on service levels. Taken one step further, in the context of the capital prioritization recommendation made in Section 3, there may currently be insufficient information available for some major asset categories to allow for an overarching risk assessment to be performed by the City.

There is no formal, sustainable collaborative approach that has been developed at this stage between those finance personnel with responsibility for capital asset management and the City-wide divisions to ensure that asset management is a continuous process and not only performed at the point in time of developing the initial AMP. In the current state, there are limited formal supporting systems in place (i.e. further supporting systems are needed) to drive the integration of Asset & Financial Management with City-wide divisions in order to achieve effective asset management planning going-forward. This is further impacted by the lack of an official team that is dedicated to, and deals solely with, capital asset management issues.

b) Recommendation

#3 - IA recommends that formalized criteria be developed to set out the roles and responsibilities that Asset & Financial Management will play in ongoing asset management compared to the roles and responsibilities of the individual stakeholder divisions. The aim of these criteria would be to yield a consistent level of integration between Asset & Financial Management and the various stakeholder divisions, which ultimately will assist in ensuring that long-term asset performance can be sustained and funded at a level that meets the level of service articulated to the stakeholders and citizens. It will also drive an increase in accountability between the stakeholder divisions and Asset & Financial Management with respect to the asset management planning process.

5 – Determine Impact of Capital Projects on Operating Budgets including Life Cycle Costs

a) Budgeting Process and Contextual Facts and Figures

The City's budgeting process is guided by Council Policy C03-001: The Budget Process. With respect to capital projects, C03-001 3.4 outlines the relevant guidelines which drive the City's capital planning and budgeting, which is the focus of this IA project. More specifically, in C03-001 3.4 b) iii), it states that for the estimation of project costs, for each capital project it "should indicate what impact the project will have on the operating budget (i.e. cost to operate and maintain the capital asset)". The inclusion of both "operate and maintain" is key as the cost to operate an asset would be the impact of that capital project on the annual operating budget going-forward, while the cost of maintaining the capital asset would be the life cycle costs associated with that capital project over its life, which in most cases will be a combination of operating and capital expenditures.

In the 2017 Approved Operating & Capital Budget for the City, there was a total approved investment in capital projects of $261.9 million, including Land Development. The total operating budget impact of capital investments identified in 2017 was a total of $1.6 million (or 0.6%) over the 2018 to 2020 period, of which 55% related to operating increases necessary for the operational success of the Construction and Demolition Waste Management Centre (i.e. Recovery Park). Excluding Recovery Park, the total operating budget impact of capital investments identified in 2017 was $0.7 million or 0.3%.

In the 2016 Approved Operating & Capital Budget for the City there was a total approved investment in capital projects of $228.8 million, including Land Development. The operating impact of capital investments identified in 2016 was a total of $1.4 million (or 0.6%) throughout the 2017 to 2019 period, almost 2/3 of which related to land development projects. The primary type of operating cost impact identified for the land development projects was increased park maintenance costs for new park developments. Excluding the land development projects, the total operating budget impact of capital investments identified in 2016 was $0.6 million or 0.3%.

	2017	2016
Capital investment (including land development)	$261.4 million	$228.8 million
Operating costs impact ($)	$1.6 million	$1.4 million
Operating costs impact (%)	0.6%	0.6%

Through IA's review of the capital budget, a disclosed operating cost impact of 0.6% (or 0.3% excluding land development projects) appears to be low and does not capture the full operational impact of these capital investments, which are in excess of $200 million in both 2016 and 2017.

b) Consideration of Operating Impacts and Life Cycle Costs

The lack of sufficient consideration of operating impacts and life cycle costs of capital projects is not unique to the City of Saskatoon and is in fact common for municipalities, due to a combination of failing to properly understand project needs, not effectively prioritizing the importance of properly identifying operating impacts and life cycle costs within the capital project budgets, and/or lacking the tools and methodologies for calculating or reporting costs. That being said, operating impacts and life cycle costs should be one of the most critical considerations when deliberating whether or not a municipality should proceed with a capital project given that they typically require additional operating budget burden.

The City should ensure that operating impacts and life cycle costs of capital projects are discussed and quantified in the budget document**.** Operating impacts can be classified in terms of increased revenues, increased expenditures and/or cost savings. To ensure that operating impacts and life cycle costs are identified, the following items are of key importance:

- Development of policies and procedures that requires capital planning and asset management documents (or plans) to include operating impacts and life cycle costs when submitted in order for approval to be obtained. As mentioned earlier, policies alone without procedures are difficult to carry out and implement. Procedures should follow the policy and specifically describe how to carry out tasks in a more detailed fashion. While the policies are the guiding principles used to set the direction, the procedures describe the particular way of accomplishing what is being described in the policy. Procedures provide the platform for implementing the consistency required to decrease variations from occurring, thereby standardizing the process.
- Staff involved with estimating operating impacts should be trained on documentation of their assumptions/methodology. Items to consider when making assumptions include:
    - Timeframe to determine when costs, savings or revenue will start;
    - Various anticipated phases of the project;
    - In-house versus external operations;
    - Type of work being done; and
    - Whether the costs, savings, or revenues are recurring or non-recurring.

IA notes that for the operating cost impacts that the City does currently identify, there are challenges in identifying the funding for those operating costs. There are often decisions made that result in new operating costs being absorbed into existing budgets. While this in and of itself is not necessarily a root cause of the issue, there is a need to provide details on the full extent to which operating cost impacts exist and from that total population the impacts can be delineated into those which are being absorbed into existing budgets and those which have an incremental spend attached. If each capital spend is approached with the rebuttable presumption that some degree of life cycle costs and operating cost impacts are applicable, this will assist in capturing the full initial details. Section 7 provides further explicit details on the presentation of these items once they have been determined.

c) <u>Leading Practices from Canadian Municipalities</u>

Using the example of the City of Calgary introduced in Section 3, the Asset Management Plan is the key driver of the 10 Year Infrastructure Investment Plan (IIP) and the 3 Year Business Plan and Budget. This is a relevant example for the City of Saskatoon to consider given the continued trajectory towards introducing Multi-Year Budgeting. Even without taking into consideration the Multi-Year Budgeting, the City of Calgary example provides relevant context in terms of creating strong linkage between AMP's and the budgeting process. The City of Calgary is moving towards having budget approval to align with the "Stage Gate Methodology" in 2017. The Corporate Project Management Framework (CPMF) Committee and the Finance business unit are leading the implementation of a capital budgeting process that aligns to new stage gating, risk management and estimating/contingency standards. Given that the budget process is changing in 2017, the budget approval template discussed in the paragraph immediately below will likely be updated accordingly.

The City of Calgary's IIP includes all potential capital projects and programs within a 10 year period, whether funded or unfunded. All capital projects and programs are required to have some form of accompanying business case, including a capital project budget request approval template. Capital projects that are included in the IIP are linked to the various business units' AMP's. Capital prioritization criteria are required to align to the overall capital budget guidelines. Included in the capital project budget request template used by the City of Calgary are the following: purpose/objective of the capital project, project sponsor, alignment with strategic goals/objectives, scope, cost (including a contingency amount of up to 10%), timing of completion, timing of expenditures, required annual operating budget to operate and maintain the capital asset, and risks and risk mitigation strategies. The City of Calgary indicates whether the budget amount request is based on preliminary estimates therefore may vary by a large range (i.e. 30% to 50%) or whether it comes from a more refined project cost estimate.

Continuing to use the example of the City of Waterloo introduced in Section 3, the Asset Management Plan includes a financing strategy of 10 years, with the first year representing an approved capital budget followed by a 9-year capital forecast. The financial plan incorporates the needs identified from the individual components of the asset management plan. In order to clearly demonstrate the life cycle costs associated with capital projects, the capital spend of the City of Waterloo is refined into the areas of: non-infrastructure solutions, maintenance activities, renewal/rehabilitation activities, replacement activities, disposal activities and expansion activities. For further details refer to Section 7.

d) Recommendations

#4 - IA recommends that Administration incorporate strict guidance for capital project submissions to the budget regarding the incorporation of asset life cycle costs and operating cost impacts.

> **Supplement to recommendation**: Administration should consider whether to incorporate a rebuttable presumption that some degree of life cycle costs and operating cost impacts be identified for each project, and in the absence of both or either an explanation is required from the submitting party. This will increase accountability for the capital project teams in properly identifying asset life cycle costs and operating cost impacts and increase Administration's ability to incorporate them fully into the budget process. An example of this currently in place is the City of Calgary's business case requirements for capital projects and programs, including their "Request for Capital" template.

#5 - IA recommends that for all capital projects where there is an absence of operating cost impacts and life cycle costs, an explanation be provided or that a direct reference be included in the capital project description of where these costs are included.

> **Supplement to recommendation**: For example, if the operating cost impact for a capital project is being absorbed elsewhere in the operating budget, this should be described and quantified in capital project's description. Operating costs should be designated as funded or unfunded. If funded, sources of funding should be identified. This detail will provide useful information to Council throughout the budget decision-making process.

6 – Multi-Year Capital Planning

The City of Saskatoon has a 5-year capital plan that is updated and published each year as well as a 10-year capital plan that is prepared for internal distribution only. Leading practices suggest that a 3 to 5 year period is sufficient, and while Saskatoon has a 10-year capital plan internally we note that other municipalities recently embarking on significant asset management strategies have publicly forecasted their capital expenditures out as far as 10 years (i.e. Waterloo).

The prioritization of items within the City's capital plan will come back to recommendations made in earlier sections of this report – although the prioritization process itself need not be spelled out explicitly in the published capital budget document itself, having a robust set of criteria in place that can be applied during the development of the capital budget ensures that balanced and well-informed decisions are made and can be justified.

The current process in place at the City allows divisions to provide initial prioritization, incorporates input and participation from major stakeholders and the general public (through the use of the Civic Survey and Citizen Budget Tool), and re-evaluates capital projects approved in previous multi-year capital plans. The areas where improvements can be made are anticipating operating budget impacts, and life cycle costs, resulting from capital projects and the use of a defined, City-wide rating system to facilitate decision-making (all of these items are addressed in other sections of this report).

Although multi-year capital planning is currently in place, the City's potential move to overall multi-year budgeting for all aspects of the strategic planning and budgeting process will of course have implications towards the current capital budgeting process. A suggested area of improvement directly related to multi-year budgeting is to closely tie capital expenditure planning to operational planning to understand short-term and long-term operating expense impacts. It will be necessary for there to be a high level of synchronicity between the City's multi-year budgeting initiative and further asset management initiatives.

7 – Present, Monitor and Report on Budgets and Projects

a) Presenting the Capital Budget

Incorporating the capital budget into the budget document presents unique challenges for municipalities, as capital projects typically require large financial obligations spanning multiple fiscal years. The capital budget should be directly linked to the asset management plan(s) of the City. Leading practices outlined by the Government Financial Officers Association (GFOA) indicate that the capital budget should (at least) contain the following components:

- A broad based definition of capital expenditures capturing asset life and costs.
  - While the City's "Approved Capital and Operating Budget" contains a section for the capital budget which provides relevant details of the capital investment, asset life and costs are not currently directly captured in the City's budget reporting aside from operating cost impacts.
  - While the current AMP's provide details at a high level regarding asset life, more detail in the AMP's would be highly beneficial (as outlined earlier in this report) and then would allow for direct linkage of that detail to the capital budget.

- A specific place within the budget document as it is difficult to follow the various elements of the capital program if information is scattered throughout the document.
  - The City's budget document accomplishes this.

- A description of the sources of funding and uses of the asset, including an indication of the total dollar amount of capital expenditures for the budget year, for each year in the multi-year plan and the total plan. The capital plan sources and uses summary should include all projects (regardless of where the funding comes from) that fit within the definition of capital expenditures. Funding sources should be identified for all aspects of the project, clearly noting those sources with financing requirements (i.e. debt service). Estimate costs of each project, based on recent and accurate sources of information, recognizing project costs may inflate if multi-year. This information can be presented by department and division, fund, category, priority, strategic goal, or geographic location.
  - The City's budget document accomplishes this. In addition, IA has made a recommendation in this section with respect to additional incorporation of categorization into its capital budget and individual capital projects.

- A process that communicates major steps within the capital budget decision making process. These steps include identification of key dates in the capital budget process along with text describing the process, prioritization of capital projects and the criteria used therein, reporting on the capital project (including review status, expected completion dates, capital project detail, description and cost, timetable and operating impacts).
  - The City's capital budget currently captures capital project detail, description and cost, timetable, and operating impacts (although not to the full extent, as discussed elsewhere in this report). There are recommendations within this report related to the prioritization process and once a fulsome set of criteria are developed, this would allow for Administration to further discuss this criteria within its capital budget document.

b) Leading Practices from Canadian Municipalities

Relevant examples of leading practices in presentation of the capital budget in cities which have overarching asset management and capital planning policies in place to support the capital budget can be found in the municipalities of Ottawa, Windsor, London, Waterloo and Calgary.

City of Ottawa - the City of Ottawa's capital budget summarizes capital spending to 4 distinct areas: "Renewal of City Assets, Regulatory, Growth, and Strategic Initiatives". The spending in each of these areas is shown for each area of the City of Ottawa, alongside the actual spending for the previous year and the forecast spending for the subsequent 3 years.

Renewal of City Assets projects involve lifecycle maintenance to care for existing assets, Growth projects are to support new residents and businesses, and Strategic Initiatives address ongoing community priorities and fund new programs and assets that are not growth related.

- Strategic Initiatives are determined by community needs not characterized as lifecycle or growth related and consist of items such as community-related facilities, affordable housing, new street or park pathway lighting, sports field development, and park and intersection improvements. These projects are considered to gradually increase the level of service throughout the City of Ottawa and are an important part of the City's day-to-day service delivery to residents. Also included in this category are new initiatives that provide a new or improved level of service, such as new transit initiatives, a new library branch, and expansion of the ambulance fleet that are driven by improving service to existing residents rather than by growth. Strategic Initiatives are generally funded through taxes and utility rates.
- Renewal of City Assets involves the expenditures necessary to address ongoing needs of physical assets as well as deferred maintenance activity. These items are generally funded from the property tax base or water and sewer surcharge rate base.
- Growth projects involve new or expanded municipal infrastructure for new residents and businesses. These projects are funded both by development charges and by property taxes and utility rates as these growth projects benefit existing residents as well as new residents (i.e. the benefits extend far beyond just the direct growth area creating the need).

City of Windsor - The City of Windsor's capital budget includes a summary of growth vs. maintenance related projects for each service area and division within the departments of the City of Windsor, over a 5-year period (both in total and for each individual year). This provides a clear picture of the % of growth versus maintenance spending for the city as a whole as well as for each service area and department.

The individual capital project details for the City of Windsor also describe in detail any unknown operating cost impacts at the time of budget. For projects with more significant and/or complex operating cost impacts, there can be up to a whole page included in the capital budget outlining the individual operating costs associated with the capital project as well as any offsets to those impacts (i.e. salary offsets due to internal job realignments or projected increases in revenue as a result of the capital project) to arrive at the net operating cost impact.

Operating Budget Impact

Effective Date	Description	Exp/(Rev)	FTE Impact
2017-01-01	With the project launch target of Q4 2015, the additional operating costs slated to begin in year 2 would begin in 2017. The operating costs of the project for years 2-5, are estimated as a net annual increase of $160,109 (subject to changes in CPI and annual negotiated increases, as well as offsets by other potential savings and efficiencies), In addition, the staff establishment at Transit Windsor will be adjusted by a net 1 FTE position as a result of the addition of 1 FTE Hardware Support Specialist and the conversion of 1 FTE Statistics and Transit Technology Coordinator to 1 FTE ITS Coordinator. Details of the operating budget impact are listed in the attachment as per Report #17574, CR129/2015.	160,108	0

Operating Budget Impacts

Description	Estimated Operating Costs 2017	Estimated Operating Costs 2018	Estimated Operating Costs 2019	Estimated Operating Costs 2020
Software Licenses ($303,800 contract, 5 year term with 4 annual payments)	$75,950	$75,950	$75,950	$75,950
Extended Hardware Warranty (note1) ($132,000 contract, 5 year term)	29,000	31,000	34,000	38,000
Extended Operation and Maintenance ($80,000 contract, 5 year term)	19,000	20,000	20,000	21,000
Hardware Maintenance (IT)	3,920	3,920	3,920	3,920
Hosting Option - Strategic Mapping Inc. ($27,200 capital + $6,800 per year; $34,000 contract, 5 year term)	6,800	6,800	6,800	6,800
Hosting Option (IT)	15,000	15,000	15,000	15,000
Subtotal	$149,670	$152,670	$155,670	$160,670
Cell Communications	48,768	48,768	48,768	48,768
WIFI System Costs (IT)	1,000	1,000	1,000	1,000
Subtotal (excluding HST)	199,438	202,438	205,438	210,438
Add: Non-refundable HST	3,511	3,563	3,616	3,704
Subtotal (including HST net of rebate)	$202,949	$206,001	$209,054	$214,142
Staff Resources (Transit Windsor)				
ITS Coordinator	112,097	114,115	116,169	118,260
Hardware Support Specialist	102,160	109,057	116,169	118,260
Subtotal – Staff Resources	$214,257	$223,172	$232,338	$236,520
Total Gross Operating Costs	$417,206	$429,173	$441,392	$450,662
Salary offset due to internal job realignments	(112,097)	(114,115)	(116,169)	(118,260)
Projected Increase in Ridership Revenue	(145,000)	(145,000)	(145,000)	(145,000)
Total Net Operating Costs	**$160,109**	**$170,058**	**$180,223**	**$187,402**

City of London - The City of London’s capital budget summarizes capital spending in 3 distinct areas: “Lifecycle Renewal, Growth, and Service Improvement”. The spending in each of these areas is shown for each area of the City of London, alongside the actual spending for the previous year and the forecast spending for the next 3 individual years individually and the following 5 years combined (for a total of 10 years). This allows for the City of London to visually illustrate over a 10-year period the amount of capital funding that will be dedicated toward these 3 distinct areas (i.e. over a 10-year period 41% towards Lifecycle Renewal, 48% towards Growth, and 11% towards Service Improvements). The City of London’s strategic financial plan also guides the funding mix for each of these 3 areas of the capital budget.

- Lifecycle Renewal projects maintain the infrastructure that is in place today (i.e. projects that resurface roads, replace roofs and replace equipment) and address the infrastructure gap identified in the City of London AMP. These projects provide the direct linkage towards items identified in the

AMP and allow the City of London to directly and transparently track their spending that is dedicated towards addressing items in the AMP. Lifecycle Renewal projects are to be funded by capital levy and reserve funds, with a reduced reliance on debt (i.e. "pay-as-you-go" funding).

- Growth projects are planned to extend services into newly developed areas of the City (i.e. a road widening to handle additional traffic from new subdivisions). Growth projects are to be primarily supported by development charges and senior government support.
- Service Improvement projects provide a new or improved level of service or address an emerging need (i.e. purchasing property for industrial land). Service Improvement projects are funded by a mix of capital levy and reserve fund, as well as debt and non-tax support, depending on the nature of each specific project.

City of Waterloo - The City of Waterloo details spending in 5 distinct areas: "Growth, Rehabilitation, Health & Safety, Legislated, and Strategic" and its AMP includes performance measures such as the 5-year running average of capital reinvestment to replacement value of assets. The financial plan clearly demonstrates those capital projects that are attributable to growth to those that are considered rehabilitation projects, as well as segregating projects related to health and safety, legislation and strategy. This analysis is done both for the first year and for the totality of the following nine years. The financial plan demonstrates for the full 10-year period (spend of approximately $450 million), both a) the split of spending between the 13 different asset groups (i.e. parks, parking, facilities, storm water management, transportation, sanitary) as well as the split between the construction of new assets (35% of spend), the renewal of existing infrastructure (55%) and non-infrastructure activities (10%).

The financial plan also stipulates the amount of money spent on infrastructure through its annual operating budget (i.e. life cycle costs and operating cost impacts). Approximately 12% of the operating budget of the City of Waterloo is estimated to relate directly to operating and maintaining infrastructure assets, as well as to new existing assets. The City of Waterloo has segregated in their operating budget the costs dedicated to renewing existing assets ($1.2 million or 0.7%) and the costs to operate and maintain assets ($21.8 million or 12.3%), as well as reporting the breakdown of this spend among the 13 asset groups.

Table 8 – Distribution of Operating Budget by Asset Group (thousands)

Asset Group	Expenditures that Renew Existing Assets	Electricity and Natural Gas	Expenditures to Operate and Maintain Assets	Total
Transportation	$564	$0	$4,864	$5,428
Sanitary	$0	$0	$1,631	$1,631
Water Distribution	$311	$0	$2,523	$2,834
Storm Collection	$0	$0	$445	$445
Stormwater Management	$0	$0	$953	$953
Facilities	$351	$3,740	$2,927	$7,018
Parks	$0	$0	$2,946	$2,946
Forestry	$0	$0	$789	$789
Parking	$2	$0	$746	$748
Fleet	$0	$0	$24	$24
Fire Services	$0	$0	$165	$165
Information Technology	$0	$0	$2,243	$2,243
Cemeteries	$0	$0	$1,561	$1,561
Total	**$1,228**	**$3,740**	**$21,817**	**$26,785**
Expenditure is not related to providing an infrastructure service or is captured in the capital budget				$150,159
Grand Total				**$176,945**

Based on the analysis performed, the City of Waterloo estimated that the operating and maintenance expenditures of $21.8 million represented 1.4% of the total existing replacement value of the asset group ($1.6 billion). Also included in the financial plan was the total increase to annual operating and maintenance expenditures (i.e. the operating impact) at the end of the 10-year period as a result of the planned $156 million in spending on construction of assets over the next 10 years, which was $7.5 million or 4.2%.

City of Calgary - The City of Calgary details spending in 4 distinct areas: "Maintenance/Replacement, Upgrade, Growth, and Service Change".

c) Monitoring and Reporting on the Capital Budget

Monitoring and further reporting on capital projects must continue throughout the lifecycle of the asset. The City must have policies and procedures to support effective capital project monitoring and reporting to mitigate the risk of approving projects without having adequate operating and life cycle funding in place. Effective monitoring and reporting of capital projects on an ongoing basis requires the City to:

- Confirm that a project plan exists that identifies all required resources and milestone work products and verify the project plan is being followed;
- Confirm that the project's scope has been clearly identified upon completion of final design and that the project stays within scope or that changes to scope have been made consistent with an established process;
- Review project-related financial transactions to support budget review, auditing and asset management;
- Review expenditures, both in relation to the current budget and over the entire project life;
- Review encumbrances and estimates of planned expenditure activity;
- Confirm continued availability and appropriateness of revenue sources identified in the capital budget;
- Confirm the adequacy of cash flow in relation to project requirements;
- Compare results to established measures of performance;
- Report on project status and activities including a comparison of actual results to the project plan and detailing:
    - Percent of project completed and percent of project budget expended;
    - Progress on key project milestones;
    - Contract status information;
    - Revenue and expenditure activity;
    - Available appropriation;
    - Comparison of results in relation to established performance measures; and
    - Highlight significant changes to project scope or costs.

Fundamentally, the City is achieving many of the recommended monitoring and reporting task identified above in leading practices. The current capital status report prepared by Administration provides highly summarized information regarding each project, including approved budget, estimated completion cost, estimated budget variance, estimated completion date, and a brief note where applicable regarding budget variances or identification of reserves impacted by the over/under expenditure.

d) Recommendations

#6 - IA recommends that the City incorporate categorization of capital expenditures into its capital projects in order to more clearly link life cycle costs to AMP's and to distinguish between the different types of capital spend being incurred.

Supplement to recommendation: This practice would be consistent with leading practices in place at relevant Canadian municipalities and in addition would allow for the development of further performance measures to demonstrate the City's relative progress on its asset management plans. IA notes that within the "Approved Capital Project Details" document there are project types designated for each project (i.e. equipment replacement, growth and capital expansion, infrastructure maintenance, prepaid land development, electrical and street lighting, support systems, rejuvenation, environmental protection).

Based on the categorizations of other municipalities IA believes the City should revisit these categorizations to determine more consistent categories that can be applied across the divisions within their respective departments, and then incorporate analysis of the type of spend across all budgeted and forecasted years as part of more fulsome asset management planning. This will allow for the development of performance measures and also the development of useful trends and expenditure expectations which can be applied to future capital projects. At a high level, if the City were to assess its operating budget and isolate those expenses which relate to the operation and maintenance of assets (similar to the exercise undertaken by Waterloo), the City would then be able to have a general expectation of the reasonable range of total operating cost impacts to expect on a cumulative basis over a given period of time.

#7 - IA recommends the development of performance measures to illustrate the traction of asset management planning in the City.

Supplement to recommendation: One example would be the "5-year running average of capital reinvestment to replacement value of assets" utilized by the City of Waterloo. In order to do this, the City would also need to further refine its capital expenditure categorization as noted in the recommendation above to allow for more transparent and understandable budget reporting and to strengthen the link back to the AMP's.

8 – Tracking Detailed Information for Maintaining and Replacing Assets

a) <u>Policy and System for Assessing Assets and Reporting on Assessments</u>

In order to facilitate ongoing asset management planning and the ability to execute more detailed documents for the next generation of AMP's, the City requires a process for assessing assets in order to appropriately plan and budget for any capital maintenance and replacement needs. In order to achieve this, the City should consider developing a policy to require a complete inventory and periodic measurement of the physical condition of all existing capital assets based on the best practices of that specific asset class. The assessment should be updated on a periodic basis and there should be documentation of the established methods of condition assessment.

Ongoing evaluations are required to determine whether existing assets still provide the most appropriate method to deliver services. Maintenance and replacement plans for assets should be prioritized in accordance with overall goals and objectives to maintain expected service levels. Policies should require custodians to identify and dedicate fees or other revenue sources to help achieve this goal**.** Sufficient allocation of funds in the multi-year capital plan and annual operations budget for condition assessment, preventative maintenance, repair and replacement of capital assets is critical in order to continue the provision of services that contribute to public health, safety, and quality of life of the citizens.

b) <u>Illustrative Example of Major Projects and the Roadway Network</u>

Major Projects (MP) and the City's roadway network provide a good example of the importance of this step to the overall continued asset management objectives of the City as well as some of the challenges to take the City from the starting point of its asset management journey in 2016 to a more mature asset management cycle that is directly in line with its budgeting process. Through the funding from the dedicated roadway levy, the average turnaround period on the roadway network has improved from 80 years (with an annual budget of $9 million) to 20 years (with an annual budget of $27 million and the aim of addressing 5% of the roadway network annually). However, with respect to data collection needed for sophisticated asset management planning going forward, MP still consider themselves to be in very early stages. The condition assessment data collected in 2014 was MP's first objective look at the road network, and MP is currently working towards scenario modelling, in which they could use data sets and assumptions to model the types of treatment which would allow the roadway network to achieve the targeted 20 year cycle. With this model, treatment types could be altered to find a more optimal cost/benefit mix, which currently is not be achieved due to the limited data collection. Put another way, in terms of the asset management planning for the roadway network there is still a significant amount of professional judgement required and the move towards more data-driven (or scientific) judgement will result from complete up-to-date maintenance data and more condition assessment data sets for comparative modelling.

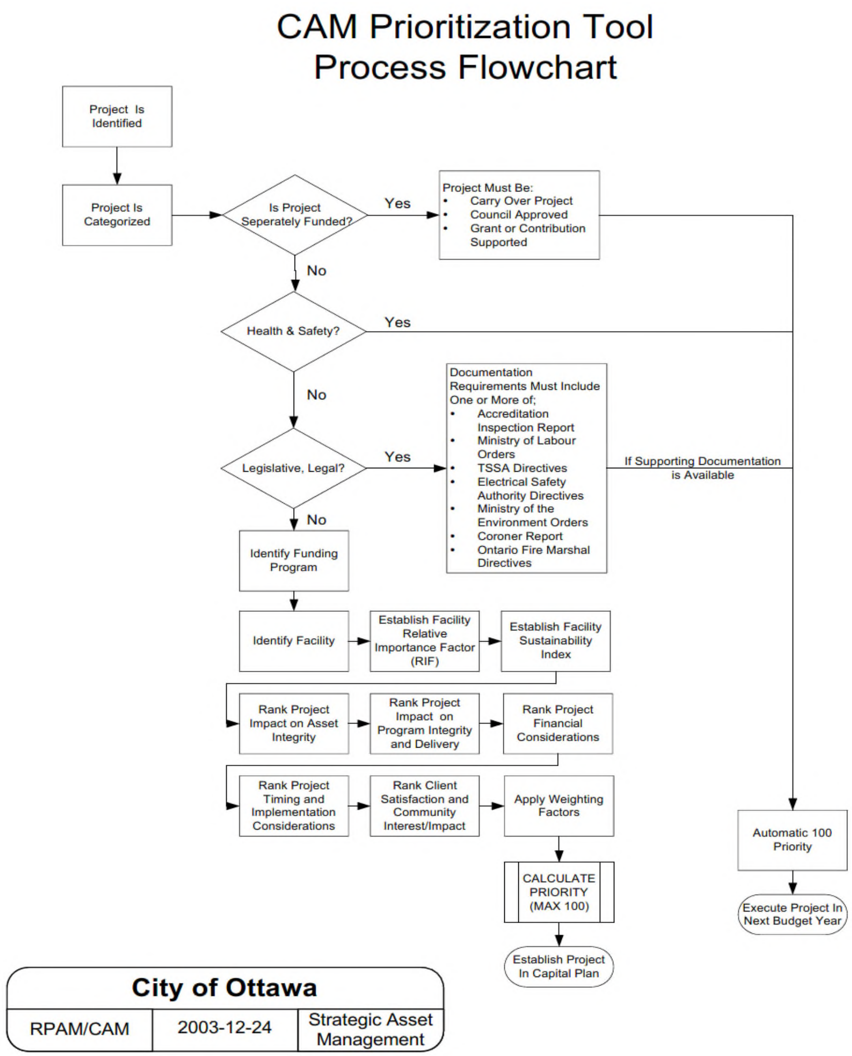
c) <u>Recommendation</u>

#8 – IA recommends that at least every four years, to coincide with the proposed multi-year budgeting cycle currently being contemplated, Administration should provide a "plain language" report on capital assets to the SPC on Finance and City Council.

Supplement to recommendation: This could be accomplished by virtue of updates to the master AMP that the City anticipates developing subsequent to completion of individual AMP's. Currently this information is provided by individual service areas annually, however a consolidated report on the City's assets as a whole would provide the relevant information in one place for each asset class. The report would describe:

- Condition ratings compared to established policy standards and by area/ward, asset class, and other relevant factors;
- Indirect condition data (e.g., number of pot holes, water main breaks, sewer back-up complaints etc.);
- Replacement life cycle(s) by infrastructure type;
  Actual expenditures and performance data on capital maintenance compared to budget, including long-term trends over the prior five years.

Appendix A – City of Ottawa Comprehensive Asset Management (CAM) Prioritization Tool



Administrative Response – Current Status, Next Steps and Timelines

	Recommendation	Response	Implementation Date
1	IA recommends that when the City develops its asset management and capital planning policies (including a master AMP), it incorporate fundamental aspects of asset management planning as outlined above and take into account leading practices from municipalities such as Ottawa, Windsor, Calgary and Waterloo, which have recently undergone such initiatives.	Agreed. Changes to Council Policy No. C03-001 are anticipated in late 2017.	June 30, 2018
2	IA recommends the incorporation of formal risk-based decision making criteria be incorporated to allow for a more structured process for capital project prioritization and the allocation of limited resources. These criteria would primarily be applicable to major capital projects that are funded outside of the Capital Reserve Bylaw. We recommend the City take into account leading practices from municipalities such as Edmonton, Ottawa and Waterloo as referenced and illustrated in this report.	Agreed. The process to prioritize projects funded from specific reserves are established by departments based on various criteria. The recommendation to implement the Auditor's suggested process would work where there are multiple projects competing for funds that are not dedicated by reserve bylaw or policy.	Dec. 31, 2017
3	IA recommends that formalized criteria be developed to set out the roles and responsibilities that Asset & Financial Management will play in ongoing asset management compared to the roles and responsibilities of the individual stakeholder divisions. The aim of these criteria would be to yield a consistent level of integration between Asset & Financial Management and the various stakeholder divisions, which ultimately will assist in ensuring that long-term asset performance can be sustained and funded at a level that meets the level of service articulated to the stakeholders and citizens. It will also drive an increase in accountability between the stakeholder divisions and Asset & Financial Management with respect to the asset management planning process.	Agreed.	June 30, 2018
4	IA recommends that Administration incorporate strict guidance for capital project submissions to the budget regarding the incorporation of asset life cycle costs and operating cost impacts.	Agreed.	Dec. 31, 2018
5	IA recommends that for all capital projects where there is an absence of operating cost impacts and life cycle costs, an explanation be provided or	Agreed.	Dec. 31, 2019

	that a direct reference be included in the capital project description of where these costs are included.		
6	IA recommends that the City incorporate categorization of capital expenditures into its capital projects in order to more clearly link life cycle costs to AMP's and to distinguish between the different types of capital spend being incurred.	Agreed.	Dec. 31, 2017
7	IA recommends the development of performance measures to illustrate the traction of asset management planning in the City.	Agreed.	Dec. 31, 2018
8	IA recommends that at least every four years, to coincide with the proposed multi-year budgeting cycle currently being contemplated, Administration should provide a "plain language" report on capital assets to the SPC on Finance and City Council.	Agreed. Administration has been providing this information on a regular basis regarding the Building Better Roads Program. As more asset management plans are adopted and implemented, the Administration will provide regular updates on progress and any issues or opportunities.	Early 2019 Upon approval of the Corporate Asset Management Plan, Administration will develop a reporting schedule/ mechanism for City Council approval.

ERP Analysis and Business Requirements Gathering – Consulting Services – Award of RFP

Recommendation

That the Standing Policy Committee on Finance recommend to City Council:

1. That the proposal submitted by MNP LLP for consulting services for the Enterprise Resource Planning Analysis and Business Requirements Gathering, at a total estimated cost of $205,000 plus applicable taxes, be approved; and
2. That His Worship the Mayor and the City Clerk be authorized to execute the contract documents as prepared by the City Solicitor under the Corporate Seal.

Topic and Purpose

The purpose of this report is to request City Council approval to proceed with a contract with MNP LLP (MNP) for consulting services for the Enterprise Resource Planning (ERP) Analysis and Business Requirements Gathering in preparation for the procurement of an ERP solution in 2018.

Report Highlights

1. A Request for Proposals (RFP) was issued for procurement of consulting services related to ERP Analysis and Business Requirement Gathering in order to proceed with the City of Saskatoon's ERP initiative.
2. The Administration is recommending that MNP, the Preferred Proponent, be awarded the contract for consulting services.

Strategic Goal

This report supports the Strategic Goal of Continuous Improvement by ensuring that the City of Saskatoon (City) is leveraging technology and emerging trends to reach its goals, serve citizens and connect meaningfully with stakeholders.

Background

The Administration started work on a possible ERP strategy by conducting a business case analysis on the benefits and potential costs of an ERP. This was conducted by Deloitte, and the final report entitled "Service Saskatoon Technology Update" was presented to City Council in December 2016. This report provided Deloitte's ERP Business Case which supported the City's transition to an ERP. City Council resolved that Capital Project 1829, Service Saskatoon – Systems, be approved and the funding strategy be adopted in principle.

Report

RFP for Consulting Services

On March 6, 2017, an RFP for consulting services was advertised on the SaskTenders website with a closing date of April 13, 2017. The Administration received five responses to the RFP from the following proponents:

1. Paradigm Consulting Group Inc.
2. KPMG LLP
3. PricewaterhouseCoopers LLP (PwC)
4. MNP LLP
5. Deloitte Inc.

The Evaluation Committee, comprised of five staff from the Finance, Human Resources and Information Technology Divisions, evaluated the proposals received based on the following criteria, and as detailed in the RFP:

Criteria	Points
Previous Experience	25
Timelines/Delivery	15
Price Schedule	25
Methodology	25
Completeness and Quality of Proposal	10
TOTAL	**100**

Preferred Proponent

Upon the evaluation of all proposals submitted, the Evaluation Committee determined that the proposal submitted by MNP achieved the highest score and meets the RFP requirements. The Administration is recommending that the City enter into a contract with MNP for consulting services in the amount of $205,000 plus applicable taxes.

Options to the Recommendation

City Council can choose not to proceed with the ERP Analysis and Business Requirements Gathering. This option is not recommended as Deloitte's previous business case indicated significant continuous improvement opportunities with an ERP implementation. Not proceeding with this work would cease the movement towards an ERP.

The option to have this work done in-house was considered; however, applying the principles for assessing the use of external resources that were presented to City Council during the 2017 Budget Deliberations, this was not a recommended option due to the following reasons:

- Capacity to perform this type of work does not exist, due to current staffing levels and day-to-day requirements.

- Expertise of current civic staff does not align with the requirements set out in the RFP as City staff have limited experience in a transition to an ERP model.

- Expected scope of work is more efficiently done by experts in the area of ERP implementations. City staff do not have the skill to perform this infrequent type of work which requires extensive knowledge of ERP best practices.

Public and/or Stakeholder Involvement
Public and/or stakeholder involvement is not required at this stage of the project.

Financial Implications
The cost of the consulting services agreement is within the approved 2017 Capital Budget, Project No. 1829, Service Saskatoon – Systems.

Other Considerations/Implications
There are no policy, environmental, privacy, or CPTED implications or considerations, and a communication plan is not required at this time.

Due Date for Follow-up and/or Project Completion
The request for proposal award will be completed once approval is obtained.

Public Notice
Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Report Approval

Written by:	Clae Hack, Director of Finance
Reviewed by:	Paul Ottmann, Director of IT
	Marno McInnes, A/General Manager, Corporate Performance Department
Approved by:	Kerry Tarasoff, CFO/General Manager, Asset & Financial Management Department

ERP Consulting Services – Award of RFP.docx

Internal Borrowing for Capital Projects

Recommendation
That the Standing Policy Committee on Finance recommend to City Council:
1. That a $15,700,000 loan from the General Account long-term investment portfolio, amortized over a 10-year term, for Capital Project Nos. 2198, 2557 and 1234 be approved;
2. That Council Policy No. C12-009, Portfolio Management, allow for a “one-time exemption” in an investment with a maturity term exceeding 10 years and that a $12,100,000 loan from the General Account long-term investment portfolio for Capital Project No. 1814, amortized over a 23-year term, be approved; and
3. That a $186,598 loan from the General Account long-term investment portfolio, for Capital Project No. 2160, amortized over a 3-year term, be approved.

Topic and Purpose
The purpose of this report is to receive City Council approval to finance specific capital projects through internal borrowing, which will be repaid through utility rates, property taxes and future parking revenues.

Report Highlights
1. Financing is presently required for a variety of capital projects. Internal borrowing is the preferred delivery method as it will have no impact on the City of Saskatoon’s borrowing limit and effectively utilize existing financial capacity.
2. The River Landing Parkade project is suitable for internal borrowing due to the unpredictability of future parkade revenues required for debt servicing.
3. The borrowing terms of the respective internal loans are tailored to the individual projects capacity to fully service the debt.

Strategic Goal
The recommendations in this report support the long-term strategy of protecting the City of Saskatoon’s (City) credit rating under the Strategic Goal of Asset and Financial Sustainability. Efficient management of the City’s debt is a key factor in the maintenance of a triple-A credit rating.

Background
A borrowing bylaw is not required for internal loans; however, City Council approval is required for any borrowing related to the funding of capital projects including the terms later outlined in this report.

The Cities Act and Bylaw 8171, The Public Notice Policy Bylaw, 2003, require Public Notice Hearings for any borrowing. The following City Council approved capital projects were identified through the budget process for borrowing and for which Public Notice Hearings were held:

Project No.	Description	Public Notice Date	Approved Budget
P2198	Reservoir Transferability System	Feb. 2013	2013
P2198	Avenue H Reservoir Expansion	Mar. 2010	2010
P2198	Enhanced Disinfection System	Feb. 2013	2013
P2557	Acadia Reservoir Pump Replacement	Feb. 2014	2014
P1234	Odour Abatement System	Feb. 2014	2014
P1814	River Landing Parkade	Apr. 2012	2012
P2160	Shaw Centre (Blairmore Pool)	Oct. 2005	2006

Report

Projects Requiring Financing

City Council has approved a variety of capital projects through the annual budgeting process that require borrowing. As projects are approved through the budgeting process, actual borrowing may not take place for several months or years until the project is significantly underway and requires financing.

The Administrative Investment Committee has identified the following capital projects previously approved by City Council that now require borrowing:

Project No.	Description	Borrowing Required
P2198	Reservoir Transferability System, Avenue H Reservoir & Enhanced Disinfection System	$ 9,700,000
P2557	Acadia Reservoir Pump Replacement	$ 2,000,000
P1234	Odour Abatement System	$ 4,000,000
P1814	River Landing Parkade	$12,100,000
P2160	Shaw Centre (Blairmore Pool)	$ 186,598
TOTAL		**$27,986,598**

Typically, this borrowing has come from external sources. However, due to currently favourable internal cash balances from reserve balances, unspent project funds and other miscellaneous financial timing differences, the Investment Committee is recommending utilizing cash holdings as a source of internal borrowing. The benefits of this strategy include:

1. No impact on the City’s debt limit;
2. Minimized borrowing costs paid to external parties (debt servicing costs and commissions);
3. Provides flexibility to repay debt faster or slower; and
4. Effective utilization of the City’s financial capacity.

Unpredictable Revenue Stream from River Landing Parkade

The River Landing Parkade project requires an amortization term of 23 years, in order for the budgeted debt service to repay the annual principal and interest. Approximately $774,000 in annual funding is available which is comprised of $376,000 from future parkade revenues and $398,000 in mill rate funding. By financing this project through internal borrowing, the City retains the flexibility to revise the terms of borrowing to accommodate any substantial fluctuations in the parkade revenue stream.

However, the 23-year maturity term of the River Landing Parkade loan (investment by General Account long-term portfolio) is non-compliant with Council Policy No. C12-009, Portfolio Management, Section 3, Subsection 3.4, a) i) which states that "the term structure of each security held in the portfolio shall not exceed ten (10) years". In order to accommodate this internal borrowing, the Investment Committee is requesting that City Council approve a "one-time exemption" specifically relating to the $12,100,000 investment in the River Landing Parkade by the General Account long-term investment portfolio.

<u>Terms of Borrowing</u>
The internal loans will be held in the General Account long-term investment portfolio with the terms of borrowing as follows:

Project No.	Principal Borrowed	Amortization Term	Interest * Rate	Payment Frequency
P2198,P2557,P1234	$15,700,000.00	10 years	2.65%	Annual
P1814	$12,100,000.00	23 years	3.50%	Annual
P2160	$ 186,597.50	3 years	1.40%	Annual

* interest rate is derived from calculating the City's actual cost of borrowing specific to a given amortization term

Options to the Recommendation

Alternate financing options involve debenture issuance and/or the completion of a banker's acceptance loan/interest rate swap financing. The Investment Committee is not recommending these external financing options at this time due to:

- flexibility to revise the borrowing terms of an internal loan should significant events occur to warrant such a revision;
- the City's present capacity to borrow funds internally to fund capital projects; and
- preference to minimize and/or reduce the amount of civic debt outstanding which will have a favourable impact on the credit rating process.

Financial Implications

The source of funding for these internal loans will be the City's cash reserves. The repayments for the internal borrowings will be sourced from existing budget allocations which include parking structure and utility user fees, as well as previously phased in mill rate contributions.

The largest financial implication to this decision is the rate at which the City will approach its approved debt limit of $558 million. As internal borrowing is not counted against the approved debt limit, this financing decision will reduce the rate at which the City approaches its limit.

There are no significant financial impacts to operating revenues or expenditures to consider.

Other Considerations/Implications

There are no policy, environmental, privacy, or CPTED implications or considerations, and a communication plan is not required at this time.

Due Date for Follow-up and/or Project Completion

There is no follow-up or project completion related to this report.

Public Notice

Public Notice is required for consideration of these matters, pursuant to Section 3(e) of Policy No. C01-021, The Public Notice Policy. Public Notice was previously provided as shown in the Table on the top of page 2.

Report Approval

Written by:	Murray Gronsdal, Investment Manager Clae Hack, Director of Finance
Reviewed by:	Shelley Sutherland, Director of Corporate Revenue
Approved by:	Kerry Tarasoff, CFO/General Manager, Asset & Financial Management Department

Internal Borrowing for Capital Projects 2017.docx

Award of RFP – After-Hours Security Alarm Responses, Boiler Inspections, and Locking/Unlocking Washrooms

Recommendation
That the Standing Policy Committee on Finance recommend to City Council:
1. That the proposal submitted by the Commissionaires North Saskatchewan Division for after-hours security alarm responses, after-hours boiler inspections, and locking/unlocking washrooms in City of Saskatoon parks, at a total estimated cost for the five-year term of $500,000, plus applicable taxes, be approved; and
2. That His Worship the Mayor and the City Clerk be authorized to execute the contract documents as prepared by the City Solicitor under the Corporate Seal.

Topic and Purpose
The purpose of this report is to request City Council approval to proceed with a contract with the Commissionaires North Saskatchewan Division (Commissionaires) for after-hours security alarm responses, after-hours boiler inspections, and locking/unlocking washrooms at City of Saskatoon (City) parks.

Report Highlights
1. A Request for Proposals (RFP) was issued for procurement of security services.
2. The Administration is recommending the Commissionaires be awarded the contract for security services.

Strategic Goals
This report supports the long-term strategy of providing a coordinated approach with quick and accurate reponses by responding to all alarm responses 24 hours per day, 7 days per week, 365 days per year under the Strategic Goal of Continuous Improvement. This report also supports the Strategic Goal of Asset and Financial Sustainablity by keeping the City's assets well maintained, safe, and secure.

Background
On June 30, 2017, the contract with respect to after-hours security alarm responses, after-hours boiler inspections, and locking/unlocking washrooms in City parks will expire. The current contract between the City and the Commissionaires has been in place for approximately ten years.

The current contract with the City requires the Commissionaire's to check the City's heating plants, when and if required, every 12 hours, 7 days a week. The washrooms located in City parks are not staffed, so the Commissionaires are responsible for opening them to the public and locking them at night, 7 days week, 365 days per year. As well, the Commissionaires respond to intrusion and environmental alarms, when required, 24 hours per day, 7 days per week, 365 days per year.

Report

RFP for Security Services

On March 28, 2017, an RFP for security services was advertised on the SaskTenders website with a closing date of April 19, 2017. The Administration received three responses from the following proponents:

1. SSG Security Services
2. Real Eye Security
3. Commissionaires North Saskatchewan Division

The Purchasing Services Section deemed the submissions from SSG Security Services and Real Eye Security to be non-compliant; therefore, only the Commissionaires' proposal was subject to the evaluation process.

The Evaluation Committee (Committee), comprised of three civic staff, two from the Facilities and Fleet Management Division and one from the Purchasing Services Section, evaluated the proposal based on the following criteria, and as detailed in the RFP:

Criteria	Points
• Minimum Qualifications • Copy of Company's Occupational Health and Safety Program Manual	Pass/Fail
Company History and Organization	5
Management Approach	10
Personnel Selection Process	15
Development and Retention of Personnel	5
Total Quality Management Program	10
Training Programs	15
Value Added Features	10
Price	25
References	5
TOTAL	**100**

Awarding of the Security Services Contract

Upon evaluation of the proposal submitted, the Committee determined that the Commissioniares meets the RFP requirements. The Administration is recommending that the City enter into a contract with the Commissionaires for security services in the amount of $500,000 for the five-year term, plus applicable taxes.

Options to the Recommendation

The option to have this work done in-house was considered; however, applying the principles for assessing the use of external resources, this was not a recommended option due to the following reasons:

- Currently, the Administration does not have the capacity of existing staff to perform the work. Additional staff resources (four full-time employees as noted in the RFP) would need to be hired and be on-call 24 hours per day, 7 days per week, 365 days per year, at an estimated cost of $180,000 per year (including vehicle or car allowance costs) which would exceed the contract amount over the fiveyear period by $400,000.

- Existing staff do not have the security expertise required to perform the work. Staff would require additional training to current security standards (e.g. Canadian General Standards board Certification program for security officers and security office supervisors).

- This recommendation allows the City to effectively transfer risk associated with after hours facility inspections and security to a third party with extensive expertise and experience in this field.

Financial Implications

Funds are allocated to the Facilities' operating budgets and charged to various general ledger accounts.

Other Considerations/Implications

There are no policy, environmental, privacy, or CPTED implications or considerations, and a communication plan is not required at this time.

Due Date for Follow-up and/or Project Completion

The award of this RFP will be completed upon City Council approval.

Public Notice

Public Notice, pursuant to Section 3 of Public Notice Policy No. C01-021, is not required.

Report Approval

Written by:	Loriann Graff, Program Support Administrator, Maintenance Support Section
Reviewed by:	Del Ehlert, Manager, Maintenance Support Section Troy LaFreniere, Director of Facilities & Fleet Management Kerry Tarasoff, CFO/General Manager, Asset & Financial Management Department
Approved by:	Murray Totland, City Manager

After-Hours Security Alarm Responses_Award of RFP.docx