Region of Waterloo

Engineering and Environmental Services

Strategic Initiatives and Asset Management

To: Sustainability, Infrastructure, and Development Committee

Meeting Date: May 5, 2026

Report Title: Annual Review of Asset Management Planning Progress

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1. Recommendation

For information.

2. Purpose / Issue:

To provide an update on the Annual Review of Asset Management Planning Progress as stipulated in O. Reg 588/17.

Strategic Plan:

The Annual Review of Asset Management Planning Progress supports the Resilient and Future Ready Organization and Homes for All pillars of the strategic plan. The Asset Management Plan supports prudent investment in asset infrastructure, ensuring a fiscally responsible approach to asset management and enabling safe, livable and connected communities within the Region of Waterloo.

3. Report Highlights:

- The Region's infrastructure portfolio has a total replacement value of $11.3 billion. The progress report identifies that the Region's assets are generally in very good to fair condition, with over 84 per cent of the Region's assets in fair or better condition, which is referred to as a "state of good repair." In 2026, the Region's infrastructure funding gap has grown from $82.8M per year to $87.6M per year.

- This analysis assumes that, beginning in 2027, 60% of GRT replacement bus costs required to maintain existing service levels will be funded through the Canada Public Transit Fund (CPTF) Metro-Region Agreement. This is consistent with historical funding patterns, as replacement buses have received more than 80% senior government funding under the Investing in Canada Infrastructure Program (ICIP), which formed part of the federal Investing in Canada Plan announced in Budget 2016. If this funding is not announced as anticipated, the Region's infrastructure gap would increase by $17.5 million. In that event, the Region would need to fund or reallocate capital capacity to fleet replacement starting in 2027.

- The infrastructure funding gap has grown due to limitations of funding, impacts from inflation, aging infrastructure, competition over limited funds, and challenges with performing infrastructure renewal work while meeting the demands the infrastructure is designed to meet.

- To address the infrastructure funding gap, the Region has implemented a number of strategies including: a pay-as-you-go strategy to add operating funds to capital reserves for current and projected renewal work; utilizing the AMP as a critical component of the region's budget process by prioritizing risk and criticality of our infrastructure assets; and a debt limit strategy that supports balancing affordability with borrowing needs for capital works.

- In 2026, Finance staff are undertaking work on a reserve policy to align with insight from the Asset Management Plan. Implementation of a capital infrastructure financing plan/updated reserve policy will align with work underway to build and mature a capital prioritization framework. This work is critical to mitigating risks to service because of the infrastructure funding gap identified.

4. Background:

Infrastructure assets form the backbone of service delivery for the Region. The Region's infrastructure portfolio has a total replacement value of $11.3 billion. This is in line with the findings of the 2025 Asset Management Plan. While the asset portfolio has grown, the growth has been minimal and not significant when reporting in $ billions. This is expected as it has been eleven months since the last asset register evaluation. The total asset portfolio value will change from year to year due to inflation, deflation, addition of new assets, retiring of existing assets and general improvements.

The progress report identifies that the Region's assets are generally in very good to fair condition, with over 84 per cent of the Region's assets in fair or better condition, which is referred to as a "state of good repair." This report also shows a slight deterioration in overall condition. This is expected, as the Region is carrying an infrastructure funding gap. Overall deterioration is minimal over the last eleven months, and 84 percent of the Regions assets remain in fair or better condition. Analysis shows a trend from very good and good categories into the fair category.

Context is important with respect to the data presented within state of good repair. While the condition of very good and good requires less maintenance and renewal intervention, a condition of fair indicates that the asset is showing signs of deterioration and may therefore require more attention. This increases the operational burden of the asset, its likelihood of failure and ultimately increases the complexity and cost of renewal work. When asset condition shifts from good to fair, it is important to note that the asset is moving into a more labour-intensive phase of its lifecycle, with increasing risk of failure, decreasing reliability, and potentially resulting in more complex and costly renewal work. This progress report indicates a $182 M increase in the fair category.

Appendix A outlines the distribution of the Region's assets by condition.

The levels of service to be provided by these assets

Council report EES-SAM-25-001, summarized Levels of Service (LOS) metrics and the Region's approach to this requirement. The LOS metrics align with the requirement under O.Reg. 588/17, to support asset management planning and service delivery accountability. Defining measurable LOS helps the Region track infrastructure performance, optimize lifecycle planning and guide investment decisions. LOS can be regulatory, based on best practices or Council directed. Non-regulated levels of service can be adjusted based on community and Council priorities. LOS will require a few years of data collection before trends emerge and conclusions can be drawn from the results.

Summary of maintenance and renewal work needed to sustain assets throughout their life cycles and associated life cycle costs

Asset management planning summarizes the activities needed to strategically invest in assets throughout their life cycles at an acceptable level of risk to reliably deliver service to residents at the lowest infrastructure cost. Renewal is major rehabilitation and replacement work that is intended to improve reliability of meeting desired levels of service. The primary performance measures for reliability are asset physical condition and associated risk.

Asset management considers the asset lifecycle costs and determines funds needed for these activities. Asset management practices are integrated with financial planning and budgeting. Financial management principles currently utilized include recognizing the consumption of asset service potential, categorizing expenditure by lifecycle activity, allocating costs to assets as far as practical, preparing long term forecasts, cost-effective financing, and effective reporting of financial performance.

The annual average level of investment in asset renewal over the ten-year capital program of $233.9 million falls short of the optimal level of investment needs identified in the 2026 progress report of $321.5 million. This represents a renewal funding shortfall or infrastructure funding gap of $87.6 million per year. The stating of the infrastructure funding gap only tells part of the story.

As previously reported, capital expenditure across all Regional programs in 2025 totaled $378 million, reflecting 51% of the approved capital program budget. The lower-than-expected capital expenditure was the result of multiple factors including:

- project delays from supply chain issues (e.g. longer than anticipated lead times for delivery of Fleet and Paramedic Services vehicles),
- reliance on other work and land acquisition needing to be completed before projects can commence (particularly in Roads, Transit, Airport and Paramedic stations),

- scheduling delays due in part to coordination required with project partners (such as Transport Canada guidance on non-passenger screening at the airport or MTO changing timing of their roadwork on 7/8 which has a knock-on effect),
- project scope changes (for example: de-scoping modules in HXM in HR saved $0.9 million),
- weather (more winter weather than an average year shortened the outdoor construction season),
- workload capacity and staffing resources (particularly the water capacity constraint work where council has subsequently addressed staffing pressures. As well as staff constraints in internal support teams and design and construction team),
- tender bids below budget (note for example bus pricing received in 2025 was below budget)
- changes in legislation or internal policies (For example Bill 212 impacted some of our construction projects and internal debt limitation impacted what planning work was done).

Through the analysis conducted for this progress report, the Region's infrastructure funding gap has grown. Reasons for the growth of the infrastructure funding gap include:

- Limitations on the amount of funding available to complete infrastructure renewal work,
- An aging asset portfolio demands an ever-increasing amount of funding,
- There is competition for limited infrastructure funds, requiring the Region to prioritize renewal work, meaning not all work can be completed,
- Costs are increasing due to impacts of inflation
- There are challenges with performing infrastructure renewal work while meeting operational demands. It is difficult to take infrastructure offline for renewal work due to the demands on the services derived from the infrastructure itself.

Appendix B summarizes the Region's Infrastructure Funding Gap at a Corporate Level and by Program Area.

This analysis assumes that, beginning in 2027, 60% of GRT replacement bus costs required to maintain existing service levels will be funded through the Canada Public Transit Fund (CPTF) Metro-Region Agreement. This is consistent with historical funding patterns, as replacement buses have received more than 80% senior government funding under the Investing in Canada Infrastructure Program (ICIP), which formed part of the federal Investing in Canada Plan announced in Budget 2016. If this funding is not announced as anticipated, the Region's infrastructure gap would increase by $17.5 million. In that event, the Region would need to fund or reallocate capital capacity to fleet replacement starting in 2027.

5. Communication and Engagement with Area Municipalities and the Public

Area Municipalities: Asset Management Plans are required of all municipalities and are posted publicly. Results of the progress report will be shared with Area Municipalities, and the Region will review the findings of the Area Municipalities' progress reports.

Public: This progress report will be available on the Region's website by July 1, 2026. The Asset Management Office is available to address any comments and questions.

6. Financial Implications:

Like many municipalities, the Region is facing an ongoing infrastructure funding gap. The Region's Infrastructure Funding Gap has grown due to funding limitations, impacts from inflation, aging infrastructure, competition over limited funds, and challenges with performing infrastructure renewal work while meeting the demands the infrastructure is designed to meet.

In 2026, finance staff are undertaking work on reserve policy to align with insight from the Asset Management Plan. Staff anticipate the approval of a capital infrastructure financing plan later this year which will be aligned with the building and maturing of a capital prioritization framework.

7. Conclusion / Next Steps:

This progress report has confirmed that despite ongoing efforts, the funding of infrastructure renewal has become a continual challenge. This challenge is confirmed by an ongoing and growing infrastructure funding gap. To address the infrastructure funding gap, the Region has implemented a number of strategies including: a pay-as-you-go strategy to add operating funds to capital reserves for current and projected renewal work; utilizing the AMP as a critical component of the region's budget process by prioritizing risk and criticality of our infrastructure assets; and a debt limit strategy that supports balancing affordability with borrowing needs for capital works. All these approaches are informed by tracking and monitoring levels of service. In 2026, Finance staff are undertaking work on a reserve policy to align with insight from the Asset Management Plan. Implementation of a capital infrastructure financing plan/updated reserve policy will align with work underway to build and mature a capital prioritization framework. These initiatives are anticipated to improve capital governance and will work towards developing a long-term strategy to address infrastructure funding.

8. Attachments:

Appendix A: State of Local Infrastructure Graphs

Appendix B: Infrastructure Funding Gap Outputs

Appendix C: Annual Review of Asset Management Progress Presentation

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