

DATE: January 16, 2018

TO: MAYOR AND COUNCIL

NAME AND TITLE: Kris Dalio, Director of Finance

SUBJECT: 2018 – 2022 Financial Plan

PURPOSE:

To provide readers with a clear understanding of the City's proposed 2018 – 2022 Financial Plan and the Sustainable Finance Guidelines which underlie the development of the plan.

BALANCED FINANCIAL PLAN:

The City's Financial Plan is aligned with its Strategic and Corporate Plans and reflects the revenues from, and costs of, delivering its services.

The Community Charter requires that Council adopt five year financial operating and capital plans by bylaw before the annual property tax bylaw is adopted (before May 15th of each year). The financial plan must include the following, for each year of the plan:

Proposed expenditures including separate amounts for:

- Interest and principal on debt;
- Capital purposes;
- A deficiency from a previous year, if applicable; and
- Other purposes.

Proposed funding sources including separate amounts for:

- Revenue from property and parcel taxes;
- Fees and charges;
- Proceeds from borrowing; and
- Revenue from other sources.

Proposed transfers between funds, including separate amounts for each statutory reserve fund and accumulated surplus.

As per the Community Charter Section 165, for each year of the financial plan, the proposed expenditures and transfers to other funds cannot exceed the proposed revenue, transfers from other funds and proceeds from debt – i.e., there cannot be a deficit. If a deficit does occur, it must be reflected in the financial plan as an expenditure in the next year. A financial plan may be amended by bylaw at any time.

PUBLIC CONSULTATION:

Before adopting a financial plan, Council must have undertaken a public consultation process regarding it. Public consultation for the five year financial plan is received by Council until the end of November and may, for example, take the form of neighbourhood meetings or public opinion surveys concerning municipal services and quality of life. Council's budget meeting agendas also advertise, in advance, opportunity for public presentations and written submissions. The results from all public consultations are considered by Council in its deliberations on budget and finance matters. Two major pieces of public consultation used to guide the preparation of this year's financial plan are Talktober and Citizen Budget. Results of these public consultation efforts to date have been taken into consideration in the preparation of the financial plan.

Over the last couple of years, Talktober has been a series of scheduled consultation efforts that have taken place in the month of October where Council and Administration have gone to various venues throughout the community to engage the public. Talktober took a slightly different form this year as consultation efforts were focused specifically on education regarding the referendum for the borrowing required for the Four Seasons Leisure Pool and Fire Hall #1 replacements. The City also had two general consultation sessions with the public which were held at the Prince George Library on November 25th and November 29th.

Citizen Budget is an online budget simulator and public consultation tool that is available to the public. It focuses on gauging the public's priorities when it comes to both operational service categories as well as asking the public how they would prioritize funding for capital projects. Summarized consultation results will be presented to Council at the beginning of the January 29th budget meeting.

Lastly, when Council considers the proposed financial plan, members of the public will be provided with an opportunity to address Council during 15 minute sessions that will be scheduled at the beginning of both the afternoon and evening sessions of the January 29th meeting. If the budget discussions have not concluded by the end of the January 29th meeting, Administration and Council will reconvene on January 31st and there will be scheduled 15 minute sessions at the beginning of each necessary session of Council that follows.

FUND STRUCTURE:

The City has four funds: General, Sewer, Water and District Energy. Each fund has a balanced budget for both operating and capital expenditures and each has specific operating and capital sources of funds available to finance its programs.

General Fund – this is the largest fund and provides for services such as general government, police and fire protection, bylaw enforcement, real estate services, corporate and fiscal services, fleet services, city management, service agreements and grants, transportation, transit and snow control, cemetery and parks, development planning and permits, as well as recreation programs, services and facilities. Also included are off-street parking and solid waste services which are operated to achieve self-financing positions within the general fund. Capital projects related to these operational areas are funded from reserves, grants and debt.

Sewer and Water Funds – these funds provide for the sanitary sewer and water operations and capital programs. They are largely supported by user fees and reserves as per Sustainable Finance Guideline 3.

District Energy Fund – The District Energy System supplies centralized heating to downtown buildings through a system of hot water distribution pipes. The system will be supported by user fees as per Sustainable Finance Guideline 3.

FINANCIAL PLANNING PRINCIPLES:

The Financial Plan embraces the following planning principles in the development of the operating and capital five year plans. Sustainable Finance Guidelines are quoted in parentheses where applicable.

- Realistic Plan (14) – revenues and expenditures within the plan must be realistic and achievable. Variance reviews are completed and reviewed by Administration.
- Taxation (2) – the revenue required to provide City services that cannot be recovered through any other sources is raised through the property tax levy. Council and Administration regularly review the levels of taxation and tax burden in relation to historical levels and in comparison with other municipalities.
- User Fees (3, 4) – the user pay principle means that fees should be applied to services that are easily identifiable to users such that those who use the service are the ones who substantially pay for it. In determining user fees the City also considers demand and ability to pay. User fees are reviewed on an annual basis.
- External Debt (13) – the City uses debt to fund major capital works and expansion projects. The repayment of debt is a cost borne by the general, sewer, water, and district energy operating funds. The Ministry of Municipal Affairs and Housing sets a limit on the amount of debt a city may have; it is equivalent to payment costs of no greater than 25% of the previous year's certain revenue.
- Reserves (10) – general, sewer and water reserves are used to fund various components of the operating and capital five year plans. Administration continues to review and develop sustainable approaches to reserve fund balances.

BASE BUDGET, ASSET MAINTENANCE AND AMORTIZATION:

The Financial Plan as presented is balanced at a level that maintains core service levels, meets Council commitments and funds contractual expenditures.

Asset Maintenance is defined as expenses incurred in maintaining the predetermined service potential of an asset for a given useful life or to keep the asset in its usual condition and operating standard.

The amortization of tangible capital assets is a Public Sector Accounting Board (PSAB) 3150 requirement and will be reflected in the City's Financial Statements and five year Financial Plan Bylaw. However, while reflected, amortization of tangible capital assets is not funded in the Financial Plan.

2018 GENERAL OPERATING FUND:

The 2018 Financial Plan provides for general operating expenditures of \$131.1 million. This amount excludes taxes collected for and remitted to other levels of government and/or taxing authorities in the amount of \$43.4 million.

A taxation increase of \$2,740,000 is required to maintain core service levels and funding for contractual commitments. There are no recommended changes to the other City tax levies. The combined total taxation increase for 2018 is proposed to be 1.50%, which includes an estimated offset of \$1,231,074 in non-market change tax revenue.

On a quarterly basis, the Ministry of Public Safety and Solicitor General transfers 10% of net casino revenues from the Treasure Cove Casino to the City; annual reporting on the use of these funds is

required. The 2018 gaming revenue budget has been estimated at \$2.6 million, equivalent to the 2017 total. \$2.4 million of the gaming revenues are used to fund general capital expenditures and the other \$200,000 is transferred to the Major Events Reserve.

The Province of BC provides a share of the traffic fine revenue that is earned within the municipal boundary; these funds are allocated to the general operating fund to offset policing costs. The grant is estimated at \$1,065,000 for 2018, which is \$15,000 less than the budgeted amount in 2017.

User fee revenues in each service category were approved by Council prior to inclusion in the 2018 Financial Plan.

2018 DISTRICT ENERGY OPERATING FUND:

The Downtown District Energy System is supplying hot water for space heating and domestic hot water to 11 facilities and has the potential to connect to more private/government buildings in downtown Prince George. The system is supported by user fees.

2018 SEWER OPERATING FUND:

The sewer utility is operated as a self-financing utility and is funded through user fees. During 2015, the Standing Committee on Finance and Audit reviewed the revenues and expenditures of the sewer utility and made recommendations to Council concerning the user rates that would be required to meet the utility's operating and capital cost requirements. Council approved a bylaw that established that the sewer utility's user fee rates would be maintained at the 2015 level for the next three years (from 2016 to 2018).

2018 WATER OPERATING FUND:

The water utility is operated as a self-financing utility and is funded through user fees. During 2015, the Standing Committee on Finance and Audit reviewed the revenues and expenditures of the water utility and made recommendations to Council concerning the user rates that would be required to meet the utility's operating and capital cost requirements. Council approved a bylaw that established that the water utility's user fee rates would be maintained at the 2015 level for the next three years (from 2016 to 2018).

SIGNIFICANT EXPENDITURE SUMMARY:

External Debt (13) - The total general external debt repayment amount in 2018 is projected to be \$14.3 million. This amount includes \$7.1 million for the FortisBC Lease-In-Lease-Out Agreement (Sustainable Finance Guideline 11) which is funded from operating lease payments from FortisBC.

Internal Debt (12) - Funding from the endowment reserve is used for internal loans. In 2018, the repayment amount to the endowment reserve is estimated at \$4.1 million.

Protective Services - The RCMP provide police services to the City through a contract with the federal government. The contract allows for 140 authorized members. As has been the case in previous years, the proposed Police Protection budget is risk managed. Therefore, it is based on the cost of 126 members rather than the cost of 140 members. The RCMP has submitted a Service Enhancement Request for increased members (to 142 in 2018) for Council's consideration during budget deliberations.

Road Rehabilitation - The City's Road Rehabilitation Levy is \$5,000,000. Analysis of the City's road inventory was conducted by the Asset Management Division in 2011 and it was estimated that

\$7,000,000 per year should be reinvested in the City's roads. From 2014 to 2016, Council approved the use of Community Works grant funding to augment the levy and increase the base spending on road rehabilitation to \$7,000,000 per year. To focus on other City priorities that were identified during public consultation, Council approved the 2017 budget using a road rehabilitation levy of \$5,000,000 while the Community Works funding of \$2,000,000 was reallocated to deliver new and rehabilitation of sidewalk projects as well as parks capital projects with the tradeoff of a reduction in rehabilitation to local roads.

Administration has prepared the 2018 budget again with a \$5,000,000 road rehabilitation levy while the \$2,000,000 of Community Works funding that was previously dedicated to roads has been reallocated to sidewalks, parks and recreation related capital projects.

It is important to note that the \$5,000,000 levy has not increased since 2013. The purchasing power of \$5,000,000 decreases with inflation every year. Council may wish to consider increasing this levy at a rate of 2% per year to help the City to rehabilitate the same number of lane kilometres every year. A 2% lift in the levy would amount to \$100,000, or a 0.1% increase to the overall tax levy.

Snow Control - The Snow Levy is one of the specific levies that make up the overall City of Prince George property tax levy. The 2017 Snow Levy was funded at \$7,000,000 to fund the City's net snow control expenses. Bearing in mind the principle of preparing operating budget guidelines that reflect the costs of maintaining existing services and service levels, Administration has prepared some historical information concerning annual snow control expenses and estimates concerning required annual snow levy. Please note that this table has been adjusted for 2016 and beyond to now include Winter Sand Pickup, which was formerly funded out of the General Levy.

	2013	2014	2015	2016	2017 (at date of report)	2018 recommended levy
Budget	\$5,041,636	\$5,800,000	\$6,300,000	\$7,000,000	\$7,000,000	\$7,000,000
Net Expenses	\$5,846,313	\$6,449,516	\$6,768,445	\$5,306,568	\$7,063,584	

While the snowfalls over the last two years have been below average, the Snow Levy of \$7,000,000 has been asked to take on more responsibility. Winter Sand Pickup expenses of approximately \$1,000,000 per year have now been absorbed into that number; as well, the Snow Control Bylaw was amended to allow the reserve to help cover the rare capital expenditures that the snow control function faces. Administration is keeping a close eye on snowfall trends and will continue to monitor whether or not the \$7,000,000 remains an appropriate funding level going forward. If the annual net expenses are greater than the annual Snow Levy and the snow reserve has no available funds, the shortfall between snow expenses and revenues is taken from the City's general operating surplus.

Due to the volatility of the Prince George snowfall, the levy should be high enough to create a reserve that is equal to 25% (\$1.75 million) of the annual net snow control expenses, as well as the capital needs of the snow control function. The reserve is currently at approximately \$2.7 million but remains insufficient to cover all the capital needs in the five-year capital plan. For 2018, Administration is recommending that the snow levy remain at \$7,000,000 and will re-evaluate the levy in 2019.

Investing in the City's Infrastructure

Like most Canadian cities, Prince George faces a considerable financial challenge to ensure optimal performance and efficiency from its infrastructure. The asset management program has identified the difference between the annual investment required to maintain and replace new and aging municipal

infrastructure and the available annual budget. To address the difference between the investment required and the budget available (the “gap”), Council created the General Infrastructure Reinvestment Levy in 2013.

The 2017 General Infrastructure Reinvestment Fund Levy is \$2,500,000 and Administration has prepared the budget with that same figure in 2018. In order to address the gap, this levy would need further investment. Like the Road Rehabilitation Levy, an option to consider would be to increase the levy at an inflationary rate of 2% to help retain the purchasing power of these funds. A 2% lift in the levy would amount to \$50,000, or a 0.05% increase to the overall tax levy.

Mobile Equipment – The cost of the City’s mobile equipment is distributed through rental rates which are allocated to general, water and sewer operations. The City attempts to recover all operating, maintenance and lease costs through the rental rate program.

Solid Waste Utility – The solid waste utility is operated as a self-financing utility and is funded through user fees. As with each of our utilities the City attempts to set user rates that achieve a surplus of between 5% and 10% of operating expenses. The solid waste utility is projected to achieve an operating surplus of \$100,000 in 2018 and to contribute \$1,060,487 to the solid waste capital reserve.

Off Street Parking – The off street parking function is operated as a self-financing utility and is funded by a combination of the Downtown Off-Street Parking Levy and user fees. The Downtown Off-Street Parking Levy increased from \$750,000 in 2017 to \$900,000 in 2018. The 2018 budget is balanced with a projected contribution of \$1,114,051 to the off street parking capital reserve.

RESPECTFULLY SUBMITTED:



Kris Dalio, Director of Finance

APPROVED:



Kathleen Soltis, City Manager
Meeting date: January 29, 2018