

STAFF REPORT TO FINANCE AND AUDIT COMMITTEE

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DATE: November 25, 2022

TO: STANDING COMMITTEE ON FINANCE AND AUDIT

NAME AND TITLE: Kris Dalio, Director of Finance and IT Services

SUBJECT: Operating Budget Guidelines: 2023 – 2025

ATTACHMENT(S): None

RECOMMENDATION(S):

That the Standing Committee on Finance and Audit RECEIVE FOR INFORMATION the report dated November 25, 2022 from the Director of Finance and IT Services, titled “Operating Budget Guidelines: 2023 – 2025”.

PURPOSE:

The purpose of this report is to provide the Standing Committee on Finance and Audit with high level background information related to the City of Prince George Year 2023 to 2025 operating budget expense “drivers” and revenue sources. Administration is also seeking advice from the committee concerning the development of the three-year budget guidelines.

STRATEGIC PRIORITIES:

The City’s Financial Plan supports Council’s priorities of Sustainable Fiscal Management, Sustainable Infrastructure and Organizational Excellence.

POLICY/REGULATORY ANALYSIS:

Council must approve a balanced five-year financial plan prior to adoption of a property tax bylaw, before May 15th of each year.

According to the *Community Charter*, a council must undertake a process of public consultation regarding the proposed financial plan before it is adopted. In 2023, the City conducted five different service satisfaction surveys as well as the Citizen Budget online budget survey. The Finance and Audit Committee is receiving a summary of these results at the December 5th meeting under a separate report.

Budget meetings are currently scheduled for January 30th and February 1st. At that time a presentation on budget related consultation will be provided for the benefit of all members of Council and the public. These meetings are public and live streamed and the agendas will also include opportunities for public presentations and written submissions.

BACKGROUND:**2021 & 2022 Tax Increases, CPI, and Comparison to Other Municipalities**

Year	Proposed increase at F&A	Final Tax Levy Approved By Council	Consumer Price Index (CPI) from October to October
2021	3.16%	0.00%	4.70%
2022	6.37%	3.00%	6.90%

Inflation is at a level that has not been seen for many years. It's important to recognize that CPI is a not a perfect indicator for municipalities. For example, CPI measures inflation on a basket of goods that are used by a household such as clothing or food. Municipalities do not deal in these goods but they do deal in items such as asphalt for roads, or construction costs, which are absent from the CPI. However, CPI is still used as a measure for inflation in the absence of a specific municipal price index for Prince George.

Administration has prepared a comparative table below with other commonly compared BC municipalities. Prince George is at the extreme low end of our peers and this information is presented along with CPI for the last two years to illustrate that the City is at risk of compromising long term sustainability of service levels.

Municipality	2021	2022	TOTAL (2021 + 2022)	Representative Home Tax
Saanich	5.76%	6.67%	12.43%	\$3,184
Mission	3.20%	5.96%	9.16%	\$2,621
Vernon	2.13%	6.88%	9.01%	\$2,134
Nanaimo	3.00%	6.00%	9.00%	\$2,555
Maple Ridge	3.60%	4.40%	8.00%	\$2,801
Kelowna	4.04%	3.94%	7.98%	\$2,579
Coquitlam	2.94%	3.43%	6.37%	\$2,975
Chilliwack	2.99%	2.99%	5.98%	\$2,111
Kamloops	0.97%	4.92%	5.89%	\$2,481
Prince George	0.00%	3.00%	3.00%	\$2,366

FINANCIAL CONSIDERATIONS:

The tax levy is made up of four individual levies:

- General (operating) – provides the operating funding for all City service categories with the exceptions of Off Street Parking, Snow, Solid Waste, Sewer, Water and District Energy;
- Snow Control (operating and capital) – funds the full scope of costs associated with providing the City's snow control service;
- Road Rehabilitation (capital) – created in 2004 and funds the reinvestment needs of the City's transportation network;
- General Infrastructure Reinvestment Fund (capital) – created in 2013 to start closing the gap between the reinvestment required and the funding available to maintain the City's existing Civic Facilities.

Funding Snow Control

Snow Removal continues to be among the highest ranked services during budget consultations and highest volume calls for service. The 2022 Snow Levy was funded at \$10,000,000 to fund the City's

net snow control expenses. In 2022, Administration recommended that the levy increase to \$10,200,000 (an increase of 2%) to provide for inflationary costs on snow control for a “normal” snow year. Council did not end up approving the proposed increase and kept the levy at \$10,000,000.

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 the required annual snow levy. The 2022 Projected figure assumes normal snowfall accumulation to the end of the year.

	2019	2020	2021	2022 (to date)	2022 (projected Dec. 31st)
Budget	\$8,500,000	\$8,500,000	\$10,000,000	\$10,000,000	\$10,000,000
Net Expenses	\$9,855,763	\$10,522,130	\$7,707,770	\$6,786,083	\$9,000,000

Like 2021, the Snow Removal Service Category expenses in 2022 are projected to be under budget. As Table 1 illustrates, there can be a lot of volatility of the amount of snowfall that can occur from one year to the next. As a result, snow control is one of the City’s services at the highest risk of going over budget. 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. In the event that the general operating surplus is fully depleted of funds and the City has a deficit, that deficit must be reflected as an expenditure in the next year’s financial plan as per the *Community Charter*.

To mitigate the City’s risk, the Snow Control levy should be high enough to create a reserve that is equal to 25% (\$2.500 million) of the annual net snow control expenses, as well as the capital needs of the snow control function. If the 2022 projected amount is correct, the City will have a year end reserve amount of approximately \$3,300,000, which will exceed the reserve goal by \$800,000.

Inflationary pressures for snow removal this year are high. The CUPE collective agreement currently has a 2% increase per year but inflationary increases on contracted services, fuel and other fleet costs are noticeably higher. Therefore, the cost of an average snowfall year has increased. Administration is recommending that the snow levy increase by the amount suggested in 2022 as well as an additional \$200,000 to the 2023 figure of \$10,400,000 to keep pace with increasing costs of providing the service. With the reserve being potentially at its goal by the end of 2022, there is a possibility to rely on the reserve and raise less money with the levy in 2023 (deferral options are detailed later in this report) but it is important to note that Administration still considers the recommended \$10,400,000 to be the funding level required for snow removal in a normal year.

Road Rehabilitation Levy

In 2022, Administration recommended that the road rehabilitation levy be increased to \$5,950,000 (an approximate 2.5% increase of \$150,000) to keep pace with the rising costs of asphalt, labour and fleet expenses and maintain existing service levels. In efforts to reduce the overall tax levy, Council approved a 2022 Road Rehabilitation Levy of \$5,500,000.

For 2023, the City has experienced significant rising costs. On the City’s most recent paving contract, we have seen an increase from \$116 to \$141 per ton placed (approximately 21%) with a provision for minimum tonnage required, meaning for smaller jobs we could see rates as high as \$200 per ton. A large increase in the contribution to the Road Rehabilitation Levy is required to maintain the

same number of lane kilometers of work per year. Administration is recommending the reinstatement of the \$450,000 reduction from last year as well as an additional \$150,000 for 2023 to bring the total recommended 2023 levy to \$6,100,000.

General Infrastructure Reinvestment Fund

Like most Canadian cities, Prince George faces a considerable financial challenge to ensure optimal performance and efficiency from its infrastructure assets. 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.

Many of the city's asset types have dedicated funding sources for reinvestment: roads is funded by the Road Rehabilitation levy; sewer and water is funded by utility rates; and solid waste garbage trucks and bins are funded by their specific utility rate. To address the difference between the investment required in the remaining asset types and the budget available (the "gap"), Council created the General Infrastructure Reinvestment Levy in 2013. Administration has listed two unfunded capital projects in the capital plan to illustrate the two major asset types that still need significant reinvestment: Civic Facilities Long-Term Reinvestment - \$11,235,000; and Stormwater Drainage Network Long-Term Reinvestment - \$4,620,000.

The 2022 General Infrastructure Reinvestment Fund Levy is \$2,800,000. In order to address the gap, this levy would need further investment. The City has seen a larger than usual inflation rate when it comes to capital construction projects; it is estimated at 5% per year. To maintain the purchasing power of the existing levy and our infrastructure at current service levels, Administration is recommending the levy be increased from the 2022 budget figure by \$150,000 to the 2023 figure of \$2,950,000. Ultimately, the City should be trying over time to raise this levy to an amount that is capable of funding the two unfunded capital projects mentioned earlier.

Fees and Charges

In non-pandemic years, taxation accounts for approximately 75% of the City's total revenues. The next largest contributor is Fees and Charges at approximately 15%. In accordance with the City of Prince George Sustainable Finance Guideline #4 and Section 194 of the *Community Charter*, the City recovers the costs associated with goods and services in the following ways:

- General Taxation – for goods and services that benefit the community as a whole (eg. snow control);
- Fully Funded User Fees - for goods and services that benefit specific organizations and individuals (Development Costs, such as business licences and permit fees; and Utility Rates);
- User Fees subsidized by taxation – where specific organizations and individuals gain benefits from goods and services that are also providing significant public benefit to the community as a whole. User fees are designed to reduce the amount of subsidization as much as possible while still ensuring accessibility to users and operational efficiency.

Council has previously approved increases to the following fees and charges for 2020 to 2023: Sewer, Water, Solid Waste, Off-Street Parking, Cemetery, Highways, Storm Drainage, Subdivision Control, Snow Dumping, CN Centre; Community Arenas; Conference and Civic Centre; Aquatics; Parks and Recreation; Prince George Playhouse Theatre; Records Administration; Fire Protection and Emergency Response; and RCMP Support Services. In the summer of 2023, Council will approve the next four years of fees and charges.

Projected Expense and Revenue Adjustments - 2023 to 2025 General Operating Fund

The 2023 budget represents a full “return to normal” budget with the new Canfor Leisure Pool being the last of the COVID-19 recreation services to be added back. Table 2 provides high level expense “drivers” and revenue sources based on current information:

<u>Table 2</u> Overall 7.22% Levy Increase for 2023 - 2025 - General Operating Fund				
Row		2023	2024	2025
1	Increase in expenses over last year			
2	City Staff Salaries and Benefits Total	\$ 2,955,031	\$ 2,619,611	\$ 2,728,650
3	Prince George Public Library	194,022	123,812	127,526
4	RCMP Contract (4.59%)	1,183,145	1,114,251	922,011
5	Utilities			
6	Hydro (2.0%/2.7%/2.7%)	(180,133)	64,901	66,654
7	Natural Gas (3.0%/3.0%/3.0%)	36,673	37,773	38,906
8	Water (3%/3%/3%); Sewer (5%/5%/5%)	10,619	12,350	12,844
9	District Energy (2%/2%/2%)	(275,410)	3,860	3,860
10	Change in Debt Servicing Costs	2,173,057	963,551	1,920,737
11	Change in Fleet expenses	436,133	276,750	285,053
12	Transit Service	266,184	474,976	209,176
13	One time expenses	(110,000)	-	-
14	Other adjustments	854,863	500,000	500,000
15	Change in contingency	347,345	-	-
16	Snow Control	400,000	208,000	212,160
17	General Infrastructure Reinvestment	150,000	147,500	154,875
18	Road Rehabilitation	600,000	305,000	320,250
19	Total Increased Expenses	\$ 9,041,529	\$ 6,852,335	\$ 7,502,702
20				
21	Increase in Revenue over last year			
22	Tax Base Growth (Non-Market Change)	\$ 1,700,292	\$ 1,300,000	\$ 1,300,000
23	Safe Restart Funds	(3,247,369)		
24	Grant-in-lieu	240,900	248,127	255,571
25	Fire Ops Communication Centre for 911	325,000	145,000	125,000
26	Fees and Charges	1,097,049	123,000	126,690
27	Investment Revenue	50,000	-	-
28	Internal recoveries from other funds	294,943	303,791	312,905
29	Fortis Operating Fee	100,000	-	-
30	Traffic Fine Revenue Sharing	(100,000)	-	-
31	Total Increased Revenue	\$ 460,815	\$ 2,119,918	\$ 2,120,166
32				
33	Increase required to total municipal tax levy	\$ 8,580,714	\$ 4,732,416	\$ 5,382,536
34	Increase as a %	7.22%	3.66%	3.98%

Note: 2024 and 2025 are estimates only and will be updated in subsequent 3-year operating guidelines

Salaries and Benefits – this line includes:

- Collective agreement increase of 2% for CUPE

- Collective agreement progression increases for IAFF. The current agreement is expired as of 2021 and cost of living increases are estimated and stored in the City's contingency
- 2% increase and step progressions for Management/Exempt for 2022 (adjusted out of contingency from last year)
- Increase for Mayor & Council as per Council Remuneration Bylaw approval (1% for Mayor; 3.5% for Council) as well as 2% cost of living adjustment from 2022 (adjusted out of contingency from last year)
- an estimated 12.16 full-time equivalent (FTE) increase over last year. 9.5 FTE is due to the City having two operational swimming pools again. There is also an additional 2.0 FTE in the Fire Operations Communications Centre (FOCC) but those staffing costs are being paid for by the Regional District (line 25 in Table 2).

Prince George Public Library (PGPL) - the unionization of the PGPL's staff presents challenges that require the City to change internal service delivery. Up until now, the City has been able to provide overall cost efficiency by having City staff process PGPL's payroll and benefits. However, PGPL operates under the Library Act with their own board of directors. PGPL now needs the ability to negotiate their own collective agreement without needing to consider the City's internal capacity. PGPL will need to purchase and implement their own payroll system as well as hire staff to perform financial and human resources functions that is no longer appropriate for the City to provide.

RCMP Contract - RCMP members have also recently unionized and the City has seen larger increases to the contract since that time. Labour makes up the largest component of the cost per member that is provided by the Province. Currently, the City has a contract for 143 RCMP members. The City risk manages that budget for vacancies and funds 128 members at \$210,608/member.

Hydro - while the cost of electricity is expected to increase in 2023, Administration has reviewed the energy budgets across the organization. The City has done a lot of work in recent years with energy efficiency projects and our energy savings are outpacing our inflationary increases in this area. There is an overall reduction in 2023 expenses and the City is estimating more regular increases again in future years.

Downtown District Energy System (DDES) - this line is meant to show the increase of district energy expenses paid by City facilities to the District Energy Fund. 2023 includes an increase representing the new Canfor Leisure Pool expenses coming online. However, the DDES has not been able to generate an annual surplus up until now and the General Fund has been subsidizing DDES losses. With additional customers being added to the system as well as 2023 being the last year DDES is making debt payments on the initial investment into the system, the General Fund will no longer have to subsidize the DDES. The decrease in this line reflects that change and the City is estimating regular increases again in future years.

Debt Servicing Costs - increase in principal and interest payments on new debt for:

- Canfor Leisure Pool - \$25,500,000
- Mausoleum Expansion Phase 2 - \$1,320,000
- Masich Stadium Amenities - \$2,701,000
- Ron Brent Park Redevelopment Phase 2 & 3 - \$1,675,000
- 14th Avenue Upgrades (Irwin to Freeman) - \$1,025,000
- Domano and St Laurence Signalization - \$500,000
- Highway 16 West Frontage - Heyer to Henry - \$800,000
- Goose Country Road Culvert Replacement - \$420,000

There is no outstanding debt in the General Fund that is reaching maturity in 2023 to offset these increases. The next year of substantial debt maturity is in 2025. Detailed information on debt can be found in Schedule 5 of the City's financial statements.

Fleet – Inflationary increases on fuel, tires and maintenance are much higher than normal. This change reflects a roughly 10% increase in these costs less the amounts that are collected from other funds (sewer, water, solid waste, snow).

Transit – reflects changes in the City's Annual Operating Agreement (AOA) with BC Transit.

One-time expense reversals – this reverses the 2022 one-time expenses of consulting services for Fire Standards of Cover and the new accounting standard of Asset Retirement Obligations for the public sector.

Other adjustments – includes all other positive and negative adjustments. Large items of note are:

- Advertising savings as a result of new Public Notice Bylaw passed by Council
- Non-labour expenses associated with operating new Canfor Leisure Pool
- Increase to contracts the City has with certain service providers (software services, Employee Family Assistance Program, etc.) as well as other contracted services such as equipment rental
- HVAC, electrical and other maintenance costs for city facilities
- Insurance premiums for city assets. Overall replacement value has gone up substantially with recent inflation. The rates themselves have increased as well as insuring municipalities has become more challenging with recent fires, floods and mudslides.

A summarized look at the individual levies that make up the total projected levy increase is listed in Table 3 below. It is estimated that the General levy (not including Snow, General Infrastructure or Road Rehabilitation) would be 6.25%.

Table 3

	2022 LEVY	PROPOSED INCREASE	NON MARKET CHANGE	2023 LEVY PROPOSED	% TAX INCREASE
General - Base	100,570,760	7,430,714	1,700,292	109,701,766	6.25%
General - Infrastructure Reinvestment	2,800,000	150,000	0	2,950,000	0.13%
Snow	10,000,000	400,000	0	10,400,000	0.34%
Road Rehab	5,500,000	600,000	0	6,100,000	0.50%
Total	118,870,760	8,580,714	1,700,292	129,151,766	7.22%

Service Enhancements

Also, Administration will be bringing the following service enhancement for Council's consideration during the January/February budget meeting(s) as directed by Council resolution:

- One-time consulting expense to continue Standards of Cover work (training facility feasibility study) - \$100,000 (0.08%)

Should Council approve the service enhancement, the total tax levy increase would increase from the estimate of 7.22% to 7.30%.

Safe Restart Grant and other Tax Deferral Scenarios

For reference, a 1% reduction in tax levy equates to \$1,188,708. Subject to assessment value changes from BC Assessment, and tax rates set by Council, a 1% increase in taxes translates to approximately \$23 for the representative household. Funds required to reach reduced % targets are as follows:

Tax Levy	Required Reduction
7.00%	\$261,516
6.00%	1,450,224
5.00%	2,638,932
4.00%	3,827,640

Safe Restart Grant

The Provincial Government announced a funding stream that provides direct grant support to local governments to deal with increased operating expenses and lower revenues due to COVID-19. Its intention is to allow local governments to continue to deliver the services people depend on in their communities. Eligible costs for this grant funding include:

- Addressing revenue shortfalls
- Facility reopening and operating costs
- Emergency planning and response costs
- Bylaw enforcement and protective services like fire protection and police
- Computer and other electronic technology costs (to improve interconnectivity and virtual communications)
- Services for vulnerable persons (e.g. persons living with disabilities, mental illness or addictions, persons experiencing homelessness or other vulnerabilities)
- Other related costs

The City of Prince George received \$6,110,000 from this funding stream in 2020. Council authorized the use of \$3,247,369 of those funds in 2022 to defer tax increases. The remaining balance is \$2,862,631. It is Administration’s recommendation to use the remainder of the funds in 2023 to defer some of the current year’s required tax increase and allow the impact to be spread over multiple years. This would result in a reduction of 2.4% to the 2023 proposed tax levy increase.

Snow Control Levy

The Snow Control Reserve had a December 31, 2021 balance of \$2,301,412. It is estimated that there will be a further contribution of approximately \$1,000,000 to the reserve in 2022. If this remains true at year end, the Snow Control Reserve would exceed its target of \$2,500,000 by \$800,000. There is therefore potential to temporarily lower the Snow Control Levy and rely on the reserve for a while to make up the difference. For example, Council could consider reducing the levy by \$800,000, (or 0.67% total tax levy) with the understanding that it will need to be restored in a future year if we can continue to expect usual snow levels.

Transit Operating Reserve

In 2021, the City was given the ability to manage their own operating reserve that was formally held and operated by BC Transit. Council established and approved a Transit Operating Reserve Bylaw and the balance of the reserve at December 31, 2021 was \$1,727,534. The 2022 budget was established with a proposed drawdown on that reserve of \$858,797. In 2022, the City was still operating at a reduced service level during the months of January to March and did not expend our full budget. Instead of needing to take \$858,797 from the reserve, the City is anticipating contributing an additional \$600,000 to the reserve. This will leave an estimated \$2.3 million in the reserve at year end.

Administration has prepared the 2023 budget with the same \$858,797 reliance on the reserve in place. There is no policy guidance around a targeted balance for this reserve, however Administration suggests aiming for approximately \$1M, which should be able to fund 2-3 months of the AOA contract in full. Council could choose to leave the full \$858,797 reliance on the reserve in place as presented or choose a higher amount of reliance. Again, if Council elects this option, it should be with the understanding that Transit operations are back to normal and this base budget reliance is not something the reserve can sustain in the long term. Administration also does not expect a future surplus as in 2022. The reliance on the reserve eventually needs to be reduced or the reserve will be depleted and the funding gap will need to be fully replaced by levy funding at that time.

SUMMARY AND CONCLUSION:

The 2023 tax levy increase required to maintain existing service levels is currently estimated in this report at 7.22%. This report has been prepared to provide high level operating budget information to assist the Standing Committee on Finance and Audit to provide direction to Administration concerning the 2023 - 2025 operating budget guidelines.

RESPECTFULLY SUBMITTED:

Kris Dalio, Director of Finance and IT Services

APPROVED:

Walter Babicz, City Manager
Meeting date: December 5, 2022