

STAFF REPORT TO FINANCE AND AUDIT COMMITTEE

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DATE: November 27, 2023

TO: **STANDING COMMITTEE ON FINANCE AND AUDIT**

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

SUBJECT: Operating Budget Guidelines: 2024 – 2026

ATTACHMENT(S): None

RECOMMENDATION(S):

That the Standing Committee on Finance and Audit RECEIVES FOR INFORMATION the report dated November 27, 2023 from the Director of Finance and IT Services, titled “Operating Budget Guidelines: 2024 – 2026”.

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 2024 to 2026 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. The Finance and Audit Committee is receiving a summary of these results at the December 4th meeting under a separate report.

Budget meetings are currently scheduled for January 22nd, January 24th and January 29th. 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 - 2023 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%
2023	7.22%	7.58%	3.10%
TOTAL (2021*2022*2023)		10.81%	15.39%

Inflation remains quite high for the last few 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 three years to illustrate that the City is at risk of compromising long term sustainability of service levels.

Municipality	2021	2022	2023	TOTAL INCREASE (2021*2022*2023)	2023 Representative Home Tax
Saanich	5.76%	6.67%	7.19%	20.93%	\$3,412
Nanaimo	3.00%	6.00%	7.20%	17.04%	\$2,751
Maple Ridge	3.60%	4.40%	5.65%	14.27%	\$2,938
Kamloops	0.97%	4.92%	6.80%	13.14%	\$2,646
Victoria	2.03%	3.89%	6.15%	12.52%	\$3,458
Coquitlam	2.94%	3.43%	5.48%	12.31%	\$3,135
Kelowna	4.04%	3.94%	3.78%	12.23%	\$2,681
Chilliwack	2.99%	2.99%	4.48%	10.82%	\$2,175
Prince George	0.00%	3.00%	7.58%	10.81%	\$2,550

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 2023 Snow Levy was funded at \$9,800,000 to fund the City's net snow control expenses. In 2023, Administration recommended that the levy be set at \$10,400,000 to provide for inflationary costs on snow control for a "normal" snow year. Council elected to reduce the levy to \$9,800,000 and let any potential overruns be covered by a Snow Reserve that had a healthy balance due to lighter snow years in 2021 and 2022.

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 2023 Projected figure assumes normal snowfall accumulation to the end of the year.

Table 1 – Snow Control Levy and Expenses					
	2020	2021	2022	2023 (to date)	2023 (projected Dec. 31st)
Budget	\$8,500,000	\$10,000,000	\$10,000,000	\$9,800,000	\$9,800,000
Net Expenses	\$10,522,130	\$7,707,770	\$9,290,365	\$8,980,198	\$11,558,778

The Snow Removal Service Category expenses in 2023 are projected to be over 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% (approximately \$2.5 million) of the annual net snow control expenses, as well as the capital needs of the snow control function. If the 2023 projected amount is correct, the City will exceed their 2023 budget by \$1,758,778 and have a year end reserve remaining of approximately \$1,281,491. The reserve will not be at its goal by the end of 2023 and the balance remaining will be less than what we project to be over budget by in 2023.

Inflationary pressures for snow removal include staff wages, contracted services, fuel and other fleet costs. Therefore, the cost of an average snowfall year continues to increase. Administration is recommending that the snow levy increase by the amount suggested in 2023 to the 2024 figure of \$10,800,000 to keep pace with increasing costs of providing the service.

Road Rehabilitation Levy

In 2023, Administration recommended that the road rehabilitation levy be increased to \$6,100,000 to keep pace with the rising costs of asphalt, labour and fleet expenses and maintain existing service levels. The City is able to rehab approximately 50 lane kilometers with the current funding level.

For 2024, the City is still experiencing significant inflationary costs. The City is paying approximately \$141 per ton placed with a provision for minimum tonnage required, meaning for smaller jobs we could see rates as high as \$200 per ton. Administration is projecting a range of 6-10% increase in the contribution to the Road Rehabilitation Levy to maintain the same number of lane kilometers of

work per year. Administration is recommending an additional \$600,000 to bring the total recommended 2024 levy to \$6,700,000. For reference, the average annual reinvestment for our roads infrastructure is \$8,400,000.

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 assets, water assets and solid waste garbage trucks and bins are funded by their respective utility rates. To address the difference between the investment required in the remaining asset types and the budget available (the "infrastructure gap"), Council created the General Infrastructure Reinvestment Levy in 2013.

After a strong investment in the first few years of the levy's existence, the 2016 General Infrastructure Reinvestment Fund Levy was at \$2,500,000. Since then, the levy has only grown to \$2,950,000 in 2023 and is not meeting our asset reinvestment needs. Council is provided regular updates from the Asset Management division to illustrate the gap and Council amended the Sustainable Finance Policy to include a 1% increase to the tax levy per year to transfer to infrastructure reserves to address that gap. 1% of the 2023 tax levy is \$1,292,482 which brings the proposed 2024 General Infrastructure Reinvestment Levy to \$4,242,482.

Fees and Charges

Taxation accounts for approximately 80% of the City's total revenues. The next largest contributor is Fees and Charges at approximately 10%. In accordance with the City of Prince George Sustainable Finance Policy #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 2024 to 2027: Building, Demolition, Moving and Plumbing Permits; Business Licenses; Cemetery; Land Use Planning; Solid Waste; Highways; Sewer; Signage; Storm Sewer; Subdivision; Tree Protection; Water; Snow Dumping; CN Centre and Community Arenas; Conference and Civic Centre; Aquatics; Pine Valley Golf Centre; Parks and Recreation; Prince George Playhouse Theatre; Parking and Traffic; Records Administration; and Corporate Services.

Projected Expense and Revenue Adjustments - 2024 to 2026 General Operating Fund

Table 2 provides high level expense “drivers” and revenue sources based on current information:

<p style="text-align: center;">Table 2 Overall 5.88% Levy Increase for 2024 - 2026 - General Operating Fund</p>				
Row		2024	2025	2026
1	Increase in expenses over last year			
2	City Staff Salaries and Benefits Total	\$ 1,076,419	\$ 2,662,424	\$ 2,763,674
3	Prince George Public Library (5.11%/5.0%/5.0%)	223,031	217,504	228,379
4	RCMP Contract (4.83%/5.00%/5.00%)	2,005,362	1,490,281	1,564,795
5	Utilities			
6	Hydro (2.7%/2.7%/2.7%)	65,235	64,901	66,654
7	Natural Gas (3.0%/3.0%/3.0%)	16,800	17,304	17,823
8	Water (7%/7%/7%); Sewer (6%/6%/6%)	22,501	17,680	18,829
9	District Energy (2%/2%/2%)	10,682	7,882	8,040
10	Change in Debt Servicing Costs	(52,706)	2,538,889	(228,119)
11	Change in Fleet expenses	16,234	310,490	319,805
12	Transit Service	488,079	507,463	356,014
13	One time expenses	190,000	-	-
14	Other adjustments	2,650,445	1,000,000	1,000,000
15	Change in contingency	3,645,967	-	-
16	Snow Control	1,000,000	432,000	449,280
17	General Infrastructure Reinvestment	1,292,482	1,381,422	1,485,382
18	Road Rehabilitation	600,000	335,000	351,750
19	Total Increased Expenses	\$ 13,250,531	\$10,983,240	\$ 8,402,304
20				
21	Increase in Revenue over last year			
22	Tax Base Growth (Non-Market Change)	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000
23	Grant-in-lieu	224,031	230,752	237,674
24	Fire Ops Communication Centre for 911 Dispatch	145,000	125,000	125,000
25	Fees and Charges	29,712	123,000	126,690
26	Investment Revenue	3,983,000	-	-
27	Internal recoveries from other funds	(25,212)	108,487	111,741
28	Total Increased Revenue	\$ 5,656,531	\$ 1,887,239	\$ 1,901,106
29				
30	Increase required to total municipal tax levy	\$ 7,594,000	\$ 9,096,001	\$ 6,501,199
31	Increase as a %	5.88%	6.58%	4.38%

Note: 2025 and 2026 are estimates only and will be updated in subsequent 3-year operating guidelines

Salaries and Benefits – this line includes:

- An increase to the benefits for staff which includes premiums for basic life insurance, short and long term disability, extended health and dental. There is also an expected increase to the Canada Pension Plan (CPP) that includes additional contributions for employees above a certain income threshold
- Collective agreement step 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 2023 (this was budgeted for last year so there is a corresponding reduction in contingency)
- 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 2023 (this was budgeted for last year so there is a corresponding reduction in contingency)
- an estimated 18.1 full-time equivalent (FTE) increase over last year. 12.6 FTE's are funded by the general tax levy. The other 5.5 FTE's are positions that are fully funded by utility fees or capital.
 - 6.5 FTE is adjusting to a better than expected usage of the City's two swimming pools. As the number of customers increase, so is our responsibility to meet the appropriate safety lifeguard-to-customer ratio. We have increased revenues but as aquatics is a heavily subsidized recreational service, it results in a net cost to the City.
 - 3.0 FTEs have been added to sewer and water for engineering support for capital projects and is funded by their utility fee and does not affect the tax levy
 - 1.5 FTEs of truck drivers for Solid Waste due to increased accounts, especially in areas of limited space for high density developments. The majority of solid waste fleet are the large trucks that do curbside pickup. We only have one smaller single axel truck for the smaller spaces and will now require a second small truck and driver for these newer developments. Solid waste is funded by utility fees and does not affect the tax levy
 - 1.5 FTEs of outreach workers has been added as per the November 2022 Council report reallocating non-labour expenses to make these formally grant-paid positions permanent staff.
 - 1.0 FTE resulted from one senior position in Human Resources being eliminated and replaced by two junior positions with a very small cost difference.
 - 1.0 FTE for two more labourers in the summer. This is for employee safety as we are no longer able to assign parks staff to attend to downtown park spaces and civic facilities
 - 1.0 FTE for an engineering technician position in the Transportation and Technical Services division. This position will be used to maintain/update asset inventory and document management for the division as well as assist with the preparation of as-built drawings for City projects and assist with divisional projects. This would allow us to better meet service levels in reviewing, monitoring and enforcing permit requirements
 - 1.0 FTE is a clerical error from last year. A project manager position in Project Delivery that is funded from capital was not showing in our FTE report. The dollars were reported properly last year so there is no change that will affect the tax levy.
 - The remaining 1.6 FTE's include an additional position in Procurement and some additional hours for electrician work in Street Lighting and labourer work in Cemetery.

This line item normally shows much higher amounts but the CUPE collective agreement expires at the end of 2023 and the IAFF collective agreement expired at the end of 2021. Until those agreements are renegotiated, 2024 estimates for CUPE, and 2022 – 2024 estimates for IAFF, have been made and included in the “Change in Contingency” line. Management and Council do not have collective agreements but 2024 estimates are included in contingency as well.

Prince George Public Library (PGPL) - The increase includes the purchase of new software and the addition of a full-time staff member to assume responsibility in 2024 for payroll and benefit administration at the request of CPG Administration. In addition, the requested amount reflects

negotiated union commitments such as the increase in the Employer portion of benefit premiums from 90% to 95%, as well as a 2% wage increase for library staff.

The budget request also includes amounts required to absorb inflationary costs and to permit upgrades to outdated or end-of-life equipment and technology:

- A 5% increase in funds for the purchase of books and other physical and digital library materials to cover inflationary and currency exchange expenses.
- Upgrading of the Prince George Digital Newspaper Database from unsupported open source to commercial, full-featured software.
- An increase in the amount needed for CPG maintenance and landscaping of the Knowledge Garden.

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. The City has a contract for 149 RCMP members compared to 142 last year. One municipal employee was replaced by an RCMP member, four members were added as a 2023 service enhancement and two more members were added in May of 2023 by Council. The City risk manages that budget for vacancies and funds 135 members at \$220,782/member.

Utilities – estimates provided for increased costs of hydro and natural gas, as well as the increase of sewer, water and district energy expenses (already established in user fee bylaws) paid by City facilities to those respective funds.

Debt Servicing Costs – interest on debt and leases have increased but there is also a reduction in internal debt repayments to the Endowment Reserve Fund. The net effect is a slight reduction in debt servicing costs compared to 2023.

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 remains a challenge. This change reflects a roughly 4% 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– a budget of \$190,000 has been included to complete the Official Community Plan review.

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

- Condition assessments, security, HVAC, electrical and other maintenance costs for city facilities - \$315,760
- Aquatics - \$236,498. More than half of this figure is for security at the new Canfor Leisure Pool. The remainder is for chlorine inflation as well as inspections for the waterslide and the NinjaCross and a maintenance budget for components should they fail those inspections.
- Event Services - \$234,834. As more events are held, our revenue increases but our food services contract directly increases with the additional activity.

- Increase to contracts the City has with IT service providers for software such as Microsoft, the City's integrated financial management system, electronic document management system, etc. - \$330,713
- Insurance premiums for city assets - \$881,460. This is the second consecutive year of high premium increases. Overall replacement value has gone up substantially with recent inflation and we have to update the values of major civic facilities, such as City Hall and the CN Centre if we want to be fully insured. The rates themselves have increased as well as insuring municipalities has become more challenging with recent fires, floods and mudslides.

Tax Base Growth (non-market change) – development can add new assessment to the City's inventory that creates additional taxation revenue we did not have in prior years. The figure provided here is an estimate as BC Assessment reports for this were not available as of the date of this report. Final figures will be available when Council deliberates the completed budget in January.

Grant-in-lieu – Senior levels of government are exempt from taxation but to recognize the loss of potential revenue this can cause for municipalities, we receive a grant in lieu of the taxation.

FOCC (9-1-1 Dispatch) – The City has a contract with the Regional District to provide this service on their behalf and they pay for those costs.

Fees and Charges – includes positive and negative adjustments. Large items of note are:

- After years of record development, building permit revenue is finally showing signs of slowing. There is a corresponding reduction of \$800,000 of revenue compared to 2023
- RCMP Post Garage revenue is down by approximately \$250,000. Expected staff shortages for 2024 affect this revenue but is likely to return in future years when staff shortages end
- Real Estate lease revenue is up by \$235,000. This includes some reductions offset by the increase in revenue the City is receiving for the purchase of the Knight's Inn
- Increases in Aquatics, Event Services, Arenas and Ballfields and Cemetery revenues are enough to offset fees and charges decreases in other areas for a slight increase overall

Investment Revenue – while high interest rates will increase the City's borrowing costs, it also has a positive affect as well on our investment revenues. This budget item reflects the City's recent yield on investments during recent hikes to the Bank of Canada rate.

Internal Recoveries from Other Funds – the City accounts for self-funded services such as Sewer, Water, Solid Waste, Off-Street Parking and District Energy as separate funds. However, these services use other services such as HR, Finance, IT, Communications, etc. and an administrative fee is calculated and charged to those self-funded services to reflect that.

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 3.64%. For reference, a 1% reduction in tax levy equates to \$1,292,482. Subject to assessment value changes from BC Assessment, and tax rates set by Council, **a 1% increase in taxes translates to approximately \$25.50 for the representative household.**

Table 3

	2023 LEVY	PROPOSED INCREASE	NON MARKET CHANGE	2024 LEVY PROPOSED	% TAX INCREASE
General - Base	110,398,156	4,701,518	1,300,000	116,399,674	3.64%
General - Infrastructure Reinvestment	2,950,000	1,292,482	0	4,242,482	1.00%
Snow Control	9,800,000	1,000,000	0	10,800,000	0.77%
Road Rehab	6,100,000	600,000	0	6,700,000	0.46%
Total	129,248,156	7,594,000	1,300,000	138,142,156	5.88%

A 5.88% tax increase is an approximate \$149.94 tax increase to the representative household.

Service Enhancements

Also, Administration will be bringing the following service enhancements for Council's consideration during the January budget meeting(s):

- One-time funding request from REAPS (Sep 11. 2023 motion of Council to consider during 2024 budget deliberations) - \$100,000 (0.08%)
- Increase the RCMP contract strength from 149 to 153. Four new members at \$220,782 - \$883,128 (0.68%)
- Increase Police Support Services municipal employee staff by two: one transcriptionist (\$77,923) and one training coordinator (\$83,037) – total of \$160,960 (0.12%)
- Increase Fire Protection staff by seven: 1 Fire Prevention Inspector (\$141,787), 1 Training Branch Captain (\$171,320) and 5 Firefighters (\$118,844 each including \$20k of clothing/training) – total of \$907,327 (0.70%). The official enhancement request in the budget meetings will also have smaller incremental options as well
- Increase Fire Protection admin staff by one full time administrative clerk - \$76,519 (0.06%)
- One-time funding request for phase 2 of the Prince George Fire Training Site Feasibility Study (Nov 20, 2023 motion of Council to consider during 2024 budget deliberations) - \$75,000 (0.06%)

Should Council approve the service enhancements, the total tax levy increase would increase an additional 1.70% from the estimate of 5.88% to 7.58%.

For reference, a 1% reduction in tax levy equates to \$1,292,482. Funds required to reach reduced % targets are as follows:

Tax Levy	Required Reduction
5.00%	1,124,072
4.00%	2,416,554
3.00%	3,709,036

SUMMARY AND CONCLUSION:

The 2024 tax levy increase required to maintain existing service levels is currently estimated in this report at 5.88%. 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 2024 - 2026 operating budget guidelines.

RESPECTFULLY SUBMITTED:

Kris Dalio, Director of Finance and IT Services

APPROVED:

Walter Babicz, City Manager
Meeting date: December 4, 2023