

Date: November 29, 2024

To: **Standing Committee on Finance and Audit**

Name and title: Kris Dalio, Director of Finance and IT Services

Subject: Operating Budget Guidelines 2025 - 2027

Attachment(s): None

Recommendation(s):

That the Standing Committee on Finance and Audit RECEIVE FOR INFORMATION the report dated November 29, 2024 from the Director of Finance and IT Services, titled "Operating Budget Guidelines: 2025 - 2027".

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 2025 to 2027 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 20th and January 22nd. 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 - 2024 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%
2024	6.24%	6.78%	2.00%
TOTAL (product of all yrs)		18.32%	17.70%

CPI measures inflation on a specific basket of goods that are used by a household and is not reflective of the expenses of a municipality. Municipalities use some goods that a household uses such as gas and electricity but do not use items like clothing and alcohol. Municipalities also deal in goods that are not in the household basket like police, fire and bylaw enforcement which have been driven by increased cases related to the unhoused population, not inflation. Other examples of major municipal expenses that are unrelated to the CPI are asphalt for roads, or construction costs.

The table below with comparative BC municipalities shows that the municipal basket of goods is inflating much higher than CPI. Prince George strives to be fiscally prudent and is at the second lowest amongst our peers but this information is presented to illustrate the difficulties municipalities have with holding their pace to the CPI without compromising sustainability of service levels.

Municipality	2021	2022	2023	2024	TOTAL INCREASE (product of all years)	2024 Representative Home Tax
Saanich	5.76%	6.67%	7.19%	6.04%	28.23%	\$3,688
Nanaimo	3.00%	6.00%	7.20%	7.70%	26.05%	\$2,966
Kamloops	0.97%	4.92%	6.80%	9.55%	23.95%	\$2,895
Coquitlam	2.94%	3.43%	5.48%	8.92%	22.32%	\$3,467
Maple Ridge	3.60%	4.40%	5.65%	6.50%	21.70%	\$3,146
Victoria	2.03%	3.89%	6.15%	7.93%	21.44%	\$3,757
Chilliwack	2.99%	2.99%	4.48%	7.32%	18.93%	\$2,335
Prince George	0.00%	3.00%	7.58%	6.78%	18.32%	\$2,718
Kelowna	4.04%	3.94%	3.78%	4.72%	17.52%	\$2,807

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 2024 Snow Levy was funded at \$10,300,000 to fund the City’s net snow control expenses. In 2024, Administration recommended that the levy be set at \$10,800,000 to provide for inflationary costs on snow control for a “normal” snow year. Council elected to reduce the levy to \$10,300,000 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 2024 Projected figure assumes normal snowfall accumulation to the end of the year.

	2021	2022	2023	2024 (to date)	2024 (projected Dec. 31st)
Budget	\$10,000,000	\$10,000,000	\$9,800,000	\$10,300,000	\$10,300,000
Net Expenses	\$7,707,770	\$9,290,365	\$10,772,443	\$6,445,114	\$9,820,962

The Snow Removal Service Category expenses in 2024 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% (approximately \$2.75 million) of the annual net snow control expenses, as well as the capital needs of the snow control function. If the 2024 projected amount is correct, the City will spend \$479,038 less than the 2024 budget, have a year end reserve remaining of approximately \$2,715,966, and the reserve would be at its goal by the end of 2024.

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 2024 to the 2025 figure of \$11,000,000 to keep pace with increasing costs of providing the service.

Road Rehabilitation Levy

In 2024, the road rehabilitation levy was set at \$6,700,000 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 2025, Administration is projecting a 5% 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 \$300,000 to bring the total recommended 2025 levy to \$7,000,000. For reference, the average annual reinvestment for our roads infrastructure is \$9,700,000.

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 had 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 2024 tax levy is \$1,388,391 which brings the proposed 2025 General Infrastructure Reinvestment Levy to \$5,630,873.

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:

Row		2025	2026	2027
1	Increase in expenses over last year			
2	City Staff Salaries and Benefits Total	7,975,855	3,142,822	3,258,268
3	Prince George Public Library	249,377	229,973	241,472
4	RCMP Contract	1,238,583	1,574,288	1,653,003
5	Utilities			
6	Hydro	60,681	50,840	51,857
7	Natural Gas	83,170	13,200	13,464
8	Water and Sewer	23,638	18,719	19,936
9	District Energy	10,896	19,705	20,690
10	Change in Debt Servicing Costs	616,064	707,866	866,753
11	Change in Fleet expenses	90,251	319,097	328,670
12	Transit Service	728,970	435,801	498,516
13	One time expenses	8,000	(248,000)	-
14	Other adjustments	1,454,042	1,000,000	1,000,000
15	Change in contingency	(2,968,777)	-	-
16	Snow Control	700,000	440,000	453,200
17	General Infrastructure Reinvestment	1,388,391	1,492,355	1,587,798
18	Road Rehabilitation	300,000	350,000	367,500
19	Total Increased Expenses	\$ 11,959,141	\$ 9,546,665	\$10,361,125
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	591,969	609,728	628,020
24	Fire Ops Communication Centre for 911 Dispatch	175,000	125,000	125,000
25	Fees and Charges	446,324	123,000	126,690
26	Investment Revenue	217,000	(1,000,000)	-
27	Internal recoveries from other funds	132,420	144,649	148,989
28	Total Increased Revenue	\$ 2,862,713	\$ 1,302,377	\$ 2,328,698
29				
30	Increase required to total municipal tax levy	\$ 9,096,428	\$ 8,244,288	\$ 8,032,427
31	Increase as a %	6.55%	5.52%	5.06%

Note: 2026 and 2027 are estimates only and will be updated in subsequent 3-year operating guidelines

Salaries and Benefits – this line includes:

- increase and associated benefits with the negotiation of the new CUPE 2024 – 2026 collective agreement
- Collective agreement step progression increases for IAFF. The current agreement is expired as of 2024 and cost of living increases are estimated and stored in the City’s contingency
- increase and step progressions for Management/Exempt for 2024 (there is a corresponding reduction in contingency that budgeted for this in the prior year)
- cost of living adjustment for Mayor & Council for 2024 (there is a corresponding reduction in contingency that budgeted for this in the prior year)
- an estimated 4.9 full-time equivalent (FTE) increase over last year. 2.0 FTE’s are funded by the general tax levy. The other 0.9 FTE’s are positions that are funded by utility fees (see Sewer and District Energy lines below).
 - 1.0 FTEs for a new Information and Records Coordinator in Legislative Services
 - 1.0 FTEs for additional electricians work in Street Lighting
 - 2.0 FTEs for dedicated IT staff at the RCMP building to meet their technology needs
 - 0.6 FTE for additional labour needed to maintain the Downtown District Energy System. The City has been able to get by with very little time dedicated to the system but as this system is now aging, there needs to be some dedicated staff to maintain that service
 - The remaining 0.3 FTE’s is for some realignment of staff in Sewer

This line item normally shows lower amounts but the CUPE collective agreement expired at the end of 2023 and the IAFF collective agreement expired at the end of 2021. Those agreements have now been renegotiated and you will see a large decrease in the “Change in Contingency” line to offset the increase to the new agreements. Management and Council do not have collective agreements but 2025 estimates are included in contingency as well.

Prince George Public Library (PGPL) - The PGPL operates under the *Library Act* with their own board of directors and submits to Council an annual budget for providing library services to the municipality. Administration has received the expected financial ask and PGPL will present to Council the details of that budget during the January budget discussions.

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 153 RCMP members compared to 149 last year. Four members were added as a 2024 service enhancement. The City risk manages that budget for vacancies and funds 139 members at \$226,516/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 – reflects the borrowing costs associated with the City’s participation in the 2024 MFA Spring Issue. Also, high inflation has resulted in an increase to borrowing rates and our long-term debt is locked in at a rate for five years at a time. As these five year terms expire during this time of high interest rates, debt servicing costs are adjusted to reflect current market conditions.

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. This change reflects increases to those 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– includes reversals on previous year items for the Official Community Plan review and the Communications budget. New one-time expenses for 2025 includes some consulting expenses for a new Storm Utility as well as the demolition of the training tower at Fire Hall #2 and some office renovations to the fourth floor of City Hall that didn’t meet the thresholds required to be an official capital project.

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

- Roads - \$436,640. Large increases to the line painting contract as well as additional expenses required for traffic control as well as basic road materials such as concrete, asphalt and calcium for gravel roads.
- myPG Grants lift as well as the Council approved increase to the “Big Four” arts service providers - \$331,576
- Increase to contracts the City has with IT service providers for software. Main drivers this year include the PLL (Permitting, Land, Licensing) module of the City’s integrated financial management system, Adobe, and VM Ware - \$419,287

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:

- Increase to the FortisBC Operating Fee of \$250,000. The City receives 3% of gross revenue from the sale of natural gas within the municipal boundaries and the change here reflects what was received in 2024.
- Real Estate lease revenue is up by \$109,750. This year will be the first year where we receive 12 months of rental revenue related to the purchase of the Knight’s Inn

Investment Revenue –high interest rates have been having a very positive affect on investment revenues in the last couple of years. However, those revenues are tied to changes made to the Bank of Canada rate. As inflation cools, so will the investment revenues. The City is budgeting for this conservatively and anticipating decreases to the Bank of Canada rate in 2025.

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 4.83%. For reference, a 1% reduction in tax levy equates to \$1,388,391. Subject to assessment value changes from BC Assessment, and tax rates set by Council, **a 1% increase in taxes translates to approximately \$27.25 for the representative household.**

Table 3

	2024 LEVY	PROPOSED INCREASE	NON MARKET CHANGE	2025 LEVY PROPOSED	% TAX INCREASE
General - Base	117,596,571	6,708,037	1,300,000	125,604,608	4.83%
General - Infrastructure Reinvestment	4,242,482	1,388,391	0	5,630,873	1.00%
Snow Control	10,300,000	700,000	0	11,000,000	0.50%
Road Rehab	6,700,000	300,000	0	7,000,000	0.22%
Total	138,839,053	9,096,428	1,300,000	149,235,481	6.55%

A 6.55% tax increase is an approximate \$178.49 tax increase to the representative household.

Service Enhancements

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

- Increase the RCMP contract strength from 153 to 157. Four new members at \$226,516 - \$906,064 (0.65%)
- Increase Police Support Services municipal employee staff by three: one assistant manager of Operations (\$140,093); one victim services worker (\$92,116); and one community policing coordinator (\$96,785) – total of \$328,994 (0.24%)
- Increase Fire Protection staff by five: 5 Firefighters (\$132,354 each including \$20k of clothing/training) – and promote four senior firefighter positions to lieutenants at \$17,588 each for a total of \$732,122 (0.53%)
- Increase Bylaw Services by four bylaw officers at \$92,668 each plus \$25,000 for uniforms, equipment and training – total of \$395,672 (0.28%)
- Increase Communications staff by one engagement specialist \$106,797 (0.08%)
- Increase Parks staff by two arborists with associated equipment need of bucket truck and chipper - \$198,574 (0.14%) and capital purchases of \$701,500 – equipment procurement to take place in 2025 but the staffing component would not hit the levy until 2026
- Increase Parks staff by one recreation event coordinator at \$108,278 and a non-labour base budget of \$100,000 to manage Canada Day and other events in community parks for a total of \$208,278 (0.15%)
- Increase Planning and Development by one parks planner position for a total of \$112,424 (0.08%)

Should Council approve the service enhancements, the total tax levy increase would increase an additional 2.01% (does not include 0.14% that would impact 2026 levy) from the estimate of 6.55% to 8.56%.

For reference, a 1% reduction in tax levy equates to \$1,388,391. Funds required to reach reduced % targets from 6.55% are as follows:

Tax Levy	Required Reduction
6.00%	\$766,082
5.00%	\$2,154,473
4.00%	\$3,542,864

Summary and conclusion:

The 2025 tax levy increase required to maintain existing service levels is currently estimated in this report at 6.55%. 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 2025 - 2027 operating budget guidelines.

Respectfully submitted:

Kris Dalio, Director of Finance and IT Services

Approved:

Walter Babicz, City Manager

Meeting date: [2024/12/04]