

DATE: December 24, 2019

TO: MAYOR AND COUNCIL

NAME AND TITLE: Kris Dalio, Director of Finance

SUBJECT: 2020 – 2024 Financial Plan

PURPOSE:

To provide readers with a clear understanding of the City’s proposed 2020 – 2024 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:

According to the *Community Charter*, a council must undertake a process of public consultation regarding the proposed financial plan before it is adopted. In Prince George, this consultation has largely involved a public engagement program called “Talktober”. 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, opportunities for public presentations and written submissions. The results from all public consultations are considered by Council in its deliberations on budget and finance matters.

Like last year, Prince George used an online budget survey tool called Citizen Budget. 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. In 2019, just over 270 people submitted completed surveys that identify their budget priorities, a 40% increase over 2018. Council received a high level summary of these results at the November 18th Council meeting and more detailed results will be presented to Council at the beginning of the first budget meeting on January 6th, 2020.

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 6th meeting. If the budget discussions have not concluded by the end of the January 6th meeting, Administration and Council will reconvene on January 8th 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. The District Energy System is not fully self-supporting and requires funding from the General Fund to continue operating.

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.

GENERAL OPERATING FUND:

The 2020 Financial Plan provides for general operating expenditures of \$142.3 million. This amount excludes taxes collected for and remitted to other levels of government and/or taxing authorities in the amount of \$44.8 million.

A taxation increase of \$2,076,194 is required to maintain core service levels and funding for contractual commitments. No additional increases are being recommended to the Road Rehabilitation Levy, General Infrastructure Reinvestment Reserve Fund or the Snow Control levy. Thus, the combined total taxation increase for 2020 is proposed to be \$3,373,351, which equates to a 1.89% increase. This increase includes an estimated offset of \$1,297,157 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 2020 gaming revenue budget has been estimated at \$2.6 million, equivalent to the

2019 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 \$1,015,000 for 2020, which is the same as the budgeted amount in 2019.

User fees in each service category were approved by Council prior to inclusion in the 2020 Financial Plan.

DISTRICT ENERGY OPERATING FUND:

The Downtown District Energy System is supplying hot water for space heating and domestic hot water to eleven facilities and has the potential to connect to more buildings in downtown Prince George. The system is supported by user fees and an annual transfer from the General Fund.

SEWER OPERATING FUND:

The sewer utility is operated as a self-financing utility and is funded through user fees. Revenues and expenditures of the sewer utility are reviewed and user rates are set to fully recover the utility's operating and capital cost requirements. Council approved a bylaw that established that the sewer utility's user fee rates would increase by 5% in 2020 over the 2019 level.

WATER OPERATING FUND:

The water utility is operated as a self-financing utility and is funded through user fees. Revenues and expenditures of the water utility are reviewed and user rates are set to fully recover the utility's operating and capital cost requirements. Council approved a bylaw that established that the water utility's user fee rates would increase by 3% in 2020 over the 2019 level.

SIGNIFICANT EXPENDITURE SUMMARY:

External Debt (13) - The total general external debt repayment amount in 2020 is projected to be \$16.8 million. This amount includes \$7.5 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 2020, 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 142 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 128 members rather than the cost of 142 members.

Road Rehabilitation - The City's 2019 Road Rehabilitation Levy was \$5,650,000. 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. Administration has prepared the 2020 budget with a \$5,650,000 road rehabilitation 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 2019 Snow Levy was funded at \$8,500,000 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 to include Winter Sand Pickup of approximately \$1,000,000 per year to fully account for the true cost of snow removal in the City. These expenses were funded out of the General Levy in 2016 and prior.

Table 1 – Snow Control Levy and Expenses						
	2015	2016	2017	2018	2019 (to date)	2019 (projected Dec. 31st)
Budget	\$6,300,000	\$7,000,000	\$7,000,000	\$7,000,000	\$8,500,000	\$8,500,000
Net Expenses	\$7,639,684	\$5,306,568	\$7,116,064	\$9,658,594	\$8,439,599	\$9,000,000

2019 had a very heavy snowfall accumulation early in the calendar year and, because of that, the Snow Removal Service Category expenses are projected to be 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.

Due to the volatility of the amount of snowfall that can occur from one year to the next, the levy should be high enough to create a reserve that is equal to 25% (\$2.125 million) of the annual net snow control expenses, as well as the capital needs of the snow control function. Administration is recommending that the snow levy remain at \$8,500,000 for 2020.

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 2019 General Infrastructure Reinvestment Fund Levy is \$2,550,000 and Administration has prepared the budget with no increase to the 2019 figure.

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 2020 and to contribute \$1,082,239 to the solid waste capital reserve.

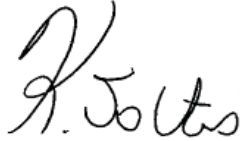
Off Street Parking – The off street parking function is operated as a self-financing utility and is funded by a combination of the Downtown Off Street Parking Levy and user fees. The Downtown Off Street Parking Levy is proposed to increase from \$1,200,000 in 2019 to \$1,700,000 in 2020. The 2020 budget is balanced with a projected contribution of \$1,798,945 to the off street parking capital reserve.

RESPECTFULLY SUBMITTED:

Handwritten signature of Kris Dalio in cursive script.

Kris Dalio, Director of Finance

APPROVED:

Handwritten signature of Kathleen Soltis in cursive script.

Kathleen Soltis, City Manager
Meeting date: January 6, 2020