

Date: January 10, 2025

To: **Mayor and Council.**

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

Subject: 2025 – 2029 Financial Plan

Purpose:

To provide readers with a clear understanding of the City's proposed 2025 – 2029 Financial Plan and the Sustainable Finance Policies which underlie the development of the plan.

Balanced Financial Plan:

The City's Financial Plan is aligned with its Strategic Plan and Corporate Work Plan 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 section 165 of the *Community Charter*, 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 prior to finalizing the budget.

Consultation this year was done through:

- The annual Citizen Budget online survey
- Five online satisfaction surveys
- Gathering comments received on social media
- Public Open House at the Prince George Conference and Civic Centre

The citizen satisfaction surveys were used to gather input from the public regarding five different service areas. This year's surveys focused on Snow and Ice Control, Roads and Sidewalks, Events and Recreation, Parks and Trails, and Protective Services

All the participation opportunities were promoted extensively through radio, digital, newspaper and social media advertising as well as public displays in civic facilities.

A fulsome summary of the 2025 Community Engagement was provided to the Finance and Audit Committee in December, 2024. The committee was also provided the full summary report from the Citizen Budget Survey. The results of the budget consultation are available to the public on the City website.

Fund Structure:

The City has four funds: General Fund, Sewer Fund, Water Fund and District Energy Fund. 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 police and fire protection, bylaw enforcement, land administration, 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 within the general fund are off-street parking and solid waste services which are operated as self-financing divisions which are funded by user fees (user fees and the Downtown Off-Street Parking Levy in the case of off-street parking). As with each of our self-funded services, the City attempts to set user rates that achieve a surplus of between 5% and 10% of operating expenses and build a reserve that is able to fund their asset reinvestment needs. The 2025 solid waste utility budget is balanced with a projected contribution of \$0.93M to the solid waste capital reserve.

The 2024 Downtown Off-Street Parking Levy was \$2,050,000 and Administration is recommending the same amount for 2025. The 2025 budget is balanced with a projected contribution of \$0.69M to the off-street parking capital reserve.

Sewer and Water Funds – These funds provide for the sanitary sewer and water operations and capital programs. The sewer and water utilities are operated as self-financing utilities and are funded through user fees as per Sustainable Finance Policy 3. Revenues and expenditures of the utilities are reviewed and user rates are set to fully recover the utilities operating and capital cost requirements. Council approved a bylaw that established that the utilities user fee rates would increase by 6% for sewer and 7% for water in 2025 over the 2024 level.

District Energy Fund – The Downtown District Energy System supplies centralized space heating and domestic hot water to a number of downtown buildings through a system of distribution pipes and has the potential to connect to more buildings in downtown Prince George. The system is supported by user fees as per Sustainable Finance Policy 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 Policies are quoted in parentheses where applicable.

- Realistic Plan (13) – 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 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.
- External Debt (12) – 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 Province 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.

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

General Operating Fund:

The 2025 Financial Plan provides for general operating expenditures of \$177.5 million. This amount excludes taxes collected for and remitted to other levels of government and/or taxing authorities in the amount of \$61.1 million.

The proposed taxation increase for 2025 is required to maintain core service levels and funding for contractual commitments. The combined total taxation increase for 2025 is proposed to be \$8,091,546 which equates to a 5.83% increase. This increase includes an estimated offset of \$2,222,674 in non-market change tax revenue.

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;
- 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.
- 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;

- The table below illustrates how the increase is dispersed among the City’s four different tax levies.

	2024 LEVY	PROPOSED INCREASE	NON MARKET CHANGE	2025 LEVY PROPOSED	% TAX INCREASE
General - Base	117,596,571	5,703,155	2,222,674	125,522,400	4.11%
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	8,091,546	2,222,674	149,153,273	5.83%

A 5.83% tax increase is an approximate \$158.87 tax increase to the representative household.

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 was 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.

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 estimates outstanding invoices not yet recorded in the system.

Table 1 – Snow Control Levy and Expenses					
	2021	2022	2023	2024 (to date)	2024 (projected)
Budget	\$10,000,000	\$10,000,000	\$10,000,000	\$10,300,000	\$10,300,000
Net Expenses	\$7,707,770	\$9,290,365	\$10,772,443	\$9,624,911	\$10,100,000

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 \$2.5 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 contribute \$200,000 to the reserve and have a year end reserve remaining of approximately \$2,4 million and will be substantially at the reserve 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 in 2024 to the 2025 figure of \$11,000,000 to keep pace with increasing costs of providing the service.

Road Rehabilitation

In 2024, Administration recommended that the road rehabilitation levy be increased to \$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.

Revenue Entitlements Under Agreements and Grants

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 \$1,050,000 for 2025, which is \$50,000 lower than the budgeted amount in 2024.

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 2025 gaming revenue budget has been estimated at \$3.0 million. \$2.7 million of the gaming revenues are used to fund general capital expenditures and the other \$300,000 is transferred to the Major Events Reserve. Gaming contributions are normally considered a reliable source of funds for capital but the COVID-19 pandemic had rendered casinos closed from March of 2020 to June of 2021. Should restrictions tighten again, this would have large impacts on the available funding for the capital plan.

The City receives an operating fee from FortisBC Inc. based on 3% of the gross revenue from the sale of natural gas within the municipal boundaries. The operating fee revenue is used for general operating purposes. The operating fee is estimated at \$1,450,000 for 2025, which is \$250,000 higher than the budgeted amount in 2024.

The Federal Government provides the transfer of federal gas tax funds under the Canada Community-Building Funds (CCBF) program to BC local governments via the Union of British Columbia Municipalities (UBCM). Funding can be used for infrastructure construction, renewal, and enhancement projects in eligible categories and for capacity building projects. The grant for 2025 is estimated at \$3,556,224, which is \$56,224 higher than the budgeted amount in 2024. CCBF grants are used to fund projects in the capital plan.

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.

Significant Budget Impacts:

General Operating Expenses

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 4.4 full-time equivalent (FTE) increase over last year. FTE changes to areas that are funded by utility fees (Sewer, Water, Solid Waste, Off-Street Parking and District Energy) do not affect the tax levy.
 - 1.0 FTEs for 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
- A net reduction of 0.2 FTE's is for adjusting small items like overtime, vacation coverage, etc.

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 there is a corresponding large decrease in the Contingency in Fiscal Services 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 there is a letter from the PGPL Board with details of that budget and will present it to Council during the January budget discussions.

RCMP Contract – The 2025 RCMP contract budget has increased by \$1.239M. RCMP members have 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. The total increase to the 2025 budget for these expenditures is \$0.178M.

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 net effect is an increase in debt servicing costs of \$0.616M compared to 2024. 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. An increase of \$0.090M reflects these costs less the amounts that are collected from other funds (sewer, water, solid waste, snow).

Transit – a \$0.729M increase reflects changes in the City’s Annual Operating Agreement (AOA) with BC Transit.

One-time expense– includes reversals on a previous year item for the Official Community Plan review (0.190M) and the Communications budget (0.050M). 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 (0.78M) and some minor office renovations to the fourth floor of City Hall (0.95M) that didn’t meet the thresholds required to be an official capital project.

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

- Roads - \$0.437M. 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 - \$0.332M
- 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 - \$0.419M

General Operating Revenues

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. Assessed values are provided by BC Assessment. The increase in non-market change for 2025 is \$2,222,674.

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. The 2025 budget has increased by \$0.592M over the 2024 amount.

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. The 2025 budget has increased by \$0.175M over the 2024 amount.

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

- Increase to the FortisBC Operating Fee of \$0.250M. 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 \$0.110M. 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.

Service Enhancements

The following service enhancements are also included 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 all of the service enhancements, the total tax levy increase would increase an additional 2.01% from the estimate of 5.83% to 7.84%.

Tax Deferral Scenarios:

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. Funds required to reach reduced % targets are as follows:

Tax Levy	Required Reduction
5.00%	1,149,593
4.00%	2,537,984
3.00%	3,926,375

Respectfully submitted:

Kris Dalio, Director of Finance and IT Services

Approved:

Walter Babicz, City Manager

Meeting date: January 20, 2025