

STAFF REPORT TO FINANCE AND AUDIT COMMITTEE

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DATE: December 2, 2020

TO: STANDING COMMITTEE ON FINANCE AND AUDIT

NAME AND TITLE: Kris Dalio, Director of Finance

SUBJECT: Operating Budget Guidelines 2021 – 2023

ATTACHMENT(S): None

RECOMMENDATION(S):

THAT the Standing Committee on Finance and Audit receive this report for information.

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 2021 to 2023 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. Due to the COVID-19 pandemic, the City shifted to an all online engagement program in 2020, which involved a budget survey and an online town hall hosted by the Mayor. The Finance and Audit Committee is receiving a summary of these results at the December 7th meeting under a separate report.

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

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

The 2020 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.

Table 1 – Snow Control Levy and Expenses					
	2017	2018	2019	2020 (to date)	2020 (projected Dec. 31st)
Budget	\$7,000,000	\$7,000,000	\$8,500,000	\$8,500,000	\$8,500,000
Net Expenses	\$7,116,064	\$9,658,594	\$9,855,763	\$8,800,360	\$10,000,000

The Snow Removal Service Category expenses in 2020 are projected to be over budget. Recent years has shown consistent expenditures of approximately \$10 million to meet our existing service level in snow removal. The snow removal levy needs to be funded at the amount required to pay those expenses. The other option would be to reduce the service level to meet the existing levy. However, Snow Removal continues to be among the highest ranked services during budget consultations and highest volume calls for service so a decrease in the service level does not appear to be the correct course of action.

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. The City's operating surplus cannot continue to absorb the unbudgeted costs of snow removal in recent years. 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*.

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% (\$2.500 million) of the annual net snow control expenses, as well as the capital needs of the snow control function. Based on average costs over the last four years and with a goal of replenishing the reserve in the next three years, Administration is recommending that the snow levy increase to \$10,000,000 for 2021.

Road Rehabilitation Levy

The City's 2020 Road Rehabilitation Levy is \$5,650,000. Administration is recommending that the road rehabilitation levy be increased from the 2020 budget figure by \$150,000 (approximately 2.5%) to the 2021 figure of \$5,800,000 to keep pace with the rising costs of asphalt, labour and fleet expenses.

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. To address the difference between the investment required and the budget available (the "gap"), Council created the General Infrastructure Reinvestment Levy in 2013.

The 2020 General Infrastructure Reinvestment Fund Levy is \$2,550,000. In order to address the gap, this levy would need further investment. The City has seen a larger than usual inflation rate when it comes to capital construction projects; it is estimated at 5% per year. To maintain the purchasing power of the existing levy and our infrastructure at current service levels, Administration is recommending the levy be increased from the 2020 budget figure by \$125,000 to the 2021 figure of \$2,675,000.

Fees and Charges

In accordance with The City of Prince George Sustainable Finance Guideline #4 and Section 194 of the *Community Charter*, the City recovers the costs associated with goods and services in the following ways:

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

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

Projected Expense and Revenue Adjustments - 2021 to 2023 General Operating Fund

The COVID-19 pandemic has greatly reduced the City's revenues in recreation, development, parking, transit, gaming and investments. The City has already taken significant actions to mitigate these losses. They include, but are not limited to:

- Closure of facilities – while many have reopened, there are a few that remain closed. **This report assumes the continued closure of the Four Seasons Leisure Pool, the Prince George Conference and Civic Centre, and the Elksentre;**
- Organizational restructuring that has resulted in the elimination of 8 exempt positions and 4 unionized positions;
- The suspension of discretionary expenses like training and travel;
- Exempt/Management staff have committed to two consecutive years of 0% cost of living increases. This decision also commits Council to the same two years of 0% in the existing Council remuneration policy.

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

<p style="text-align: center;"><u>Table 2</u> Overall 3.16% Levy Increase for 2021 - 2023 - General Operating Fund</p>				
Row		2021	2022	2023
1	Increase in expenses over last year			
2	City Staff Salaries and Benefits Total	(1,937,401)	(379,566)	1,134,264
3	Prince George Public Library (0%/0%/0%)	-	-	-
4	RCMP Contract (2.24% - inc. retro agreement)	479,740	504,434	515,733
5	Utilities			
6	Hydro Payable (2.7%/-0.3%/3%)	72,573	(8,784)	79,060
7	Natural Gas Payable (1%/1%/1%)	5,059	5,110	5,161
8	Water (3%/3%/3%); Sewer (5%/5%/5%)	16,424	16,481	17,140
9	District Energy Payable (2%/2%/2%)	29,269	10,161	10,364
10	Change in Debt Servicing Costs	(226,158)	2,239,029	998,497
11	Change in Fleet expenses	112,537	250,500	258,015
12	Transit Service cost increase	200,000	254,439	26,945
13	Non-labour expense reductions	(3,150,306)	-	-
14	One time expenses	(25,000)	-	-
15	Other adjustments	551,408	-	-
16	Change in contingency	368,753	-	-
17	Snow Control	1,500,000	200,000	204,000
18	General Infrastructure Reinvestment	125,000	133,750	140,438
19	Road Rehabilitation	150,000	116,000	118,320
20	Total Increased Expenses	\$ (1,728,103)	\$ 3,341,553	\$ 3,507,937
21				
22	Increase in Revenue over last year			
23	Tax Base Growth (Non-Market Change)	\$ 1,319,129	\$ 1,300,000	\$ 1,300,000
24	Grant-in-lieu increase	21,632	-	-
25	Fire Ops Communication Centre for 911 Dispatch	15,450	15,550	15,450
26	Fees and Charges Increases	(6,466,730)	-	-
27	Investment Revenue decrease	(150,000)	-	-
28	Internal recoveries from other funds	(23,223)	(23,920)	(24,637)
29	NDIT Ec Dev Grant	(35,000)	-	-
30	Total Increased Revenue	\$ (5,318,742)	\$ 1,291,630	\$ 1,290,813
31				
32	Increase required to total municipal tax levy	\$ 3,590,639	\$ 2,049,923	\$ 2,217,124
33	Increase as a %	3.16%	1.73%	1.82%

Note: 2022 and 2023 are estimates only and will be updated in subsequent 3-year operating guidelines

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 1.60%. CPI for October 2019 to October 2020 is currently reported at 0.7%.

Table 3

	2020 LEVY	2021 LEVY PROPOSED	% TAX INCREASE
General - Base	96,811,976	99,946,744	1.60%
General - Infrastructure Reinvestment	2,550,000	2,675,000	0.11%
Snow	8,500,000	10,000,000	1.32%
Road Rehab	5,650,000	5,800,000	0.13%
Total	113,511,976	118,421,744	3.16%

Service Enhancements

Administration will not be bringing any service enhancements for Council's consideration during the January budget meeting(s).

2%, 1% and 0% Scenarios

Two significant funding sources have potential to reduce the tax levy: The Safe Restart Grant; and the expected proceeds from the Fortis BC Lease-In-Lease-Out (LILO) agreement.

Safe Restart Grant

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

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

The City of Prince George received \$6,110,000 from this funding stream.

FortisBC LILO Agreement

The City and FortisBC have a LILO Agreement concerning the natural gas distribution system in the city. The City has financed the capital lease through long-term debt. FortisBC operates the natural gas distribution system and pays semi-annual lease payments to the City. The City in turn, applies the lease payments to the debt and places net revenues in a reserve fund. In 2021, the debt will be fully paid and FortisBC has the option of purchasing the asset at its unamortized value; or renewing the capital lease and continuing to make semi-annual payments. Should FortisBC elect to buy out the asset, the net proceeds to the City in 2021 will be approximately \$25 million. The expected timeline for this decision is in Q4 2021.

Sustainable Finance Guideline 11 provides guidance for the eventual use of the FortisBC LILO agreement revenues as follows: “Maximization of long-term benefits to City residents will be Council’s guiding principle in making decisions concerning the use of the FortisBC LILO Agreement’s revenues.”

Required Reductions to Reach 2%, 1% and 0%

Given the intent of the Safe Restart Funding, it is Administration’s recommendation to use those funds as intended to mitigate the reduced revenues the City has sustained. For reference, a 1% reduction in tax levy equates to \$1,130,721. Funds required to reach the 2%, 1% and 0% targets are as follows:

Tax Levy	Required Reduction	Safe Restart Funding Balance
3.16%	\$0	\$6,110,000
2.00%	1,329,177	4,780,823
1.00%	2,459,898	3,650,012
0.00%	3,590,619	2,519,381

SUMMARY AND CONCLUSION:

The 2021 tax levy increase in this report is 3.16%. 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 2021 - 2023 operating budget guidelines.

RESPECTFULLY SUBMITTED:

Kris Dalio, Director of Finance

APPROVED:

Walter Babicz, Acting City Manager
Meeting date: December 7, 2020