

DATE: January 12, 2021

TO: MAYOR AND COUNCIL

NAME AND TITLE: Kris Dalio, Director of Finance

SUBJECT: 2021 – 2025 Financial Plan

PURPOSE:

To provide readers with a clear understanding of the City's proposed 2021 – 2025 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 prior to finalizing the budget. In 2020, because of the challenge of conducting public engagement during the pandemic, these activities were online and involved a budget survey and a Talktober town hall hosted by the Mayor and delivered via Zoom.

Just over 1,000 people responded to the budget survey, and nearly 100 participated in the town hall, either as Zoom registrants or viewers of the simulcast on the City facebook channel.

A fulsome summary of the budget survey and Talktober, complete with charts and information about the public awareness campaign, was provided to the Finance and Audit Committee in November, 2020. Here is the link to that report: <https://pub-princegeorge.escribemeetings.com/filestream.ashx?DocumentId=6551>

Summary of Survey Results

Service areas that respondents felt should get additional funding included Police Services, Roads and Sidewalks, and Snow and Ice Control. Decreases in funding were identified for Fire Protection, Bylaw Enforcement, Public Transit, Recreation and Community Services, Community Support Services, Parks, Trails and Beautification, Community Planning and Infrastructure, Services that Attract and Retain Businesses and Facilitate Development, Environmental Management and Climate Action, and Corporate Services.

Three questions were asked about local impacts of the COVID-19 pandemic. In answering each, respondents were able to adjust a slider on a 100-point scale, with one being significantly decreased, 50 being the same, and 100 being significantly increased:

- Has the pandemic affected income levels in your home/business? Average: 45
- Has the pandemic affected the confidence you feel in PG and its economy? Average: 42
- Has the pandemic affected your use of parks, trails, and sidewalks for things like walking and biking? Average: 62

Because the pandemic has also significantly affected City finances and revenues, respondents could indicate ways that the shortfall could be addressed. The three most popular results:

- “Seek financial assistance from the provincial and federal governments” – 66%
- “Sell some city land” – 59%
- “Keep facilities closed” – 55%

More than 600 respondents also provided comments in a free-form section that allowed for respondents to provide information in their own words. The most common themes for comments were Budgets and Expenses (33%) and Council and staff remuneration (31%).

Talktober Town Hall

During the town hall meeting on October 27, Mayor Hall responded to nearly 30 questions on a variety of topics, including:

- Parking downtown and throughout the community;
- Funding for capital projects and infrastructure maintenance;
- Crime in the downtown and other areas of the community;
- Social issues such as homelessness;
- Road and Sidewalk rehabilitation;
- Closing and re-opening arenas and public facilities during the pandemic;
- Reducing staff overtime and salaries.

Summary

The results of the 2021 budget consultation, including a recording of the Talktober Town Hall, are available to the public on the City website: www.princegeorge.ca/getinvolved.

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 25th meeting. If the budget discussions have not concluded by the end of the January 25th meeting, Administration and Council will reconvene on January 27th 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 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 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 is 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 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 2021 Financial Plan provides for general operating expenditures of \$139.0 million. This amount excludes taxes collected for and remitted to other levels of government and/or taxing authorities in the amount of \$46.7 million.

A taxation increase of \$2,261,442 is required to maintain core service levels and funding for contractual commitments. The combined total taxation increase for 2021 is proposed to be \$3,533,261, which equates to a 2.00% increase. This increase includes an estimated offset of \$1,271,129 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 2021 gaming revenue budget has been estimated at \$0 as casinos have been closed due to ongoing public health orders regarding the COVID-19 pandemic. This will represent a loss to reserves for general capital projects and gaming of approximately \$2.6 million in 2021.

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 2021, which is the same as the budgeted amount in 2020.

User fees in each service category were approved by Council prior to inclusion in the 2021 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 2021 over the 2020 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 2021 over the 2020 level.

SIGNIFICANT EXPENDITURE SUMMARY:

External Debt (13) - The total general external debt repayment amount in 2021 is projected to be \$14.8 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. This is the final year of the FortisBC Lease-in-Lease-Out debt repayments.

Internal Debt (12) - Funding from the endowment reserve is used for internal loans. In 2021, 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 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.

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.

				<i>To Date</i>
Year	2017	2018	2019	2020
Budget	7,000,000	7,000,000	8,500,000	8,500,000
Expenses	7,116,064	9,658,594	9,855,763	10,400,858

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.

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 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.

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 2021 and to contribute \$1,097,038 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 \$1,700,000 in 2020 to \$2,000,000 in 2021. The 2021 budget is balanced with a projected contribution of \$1,984,302 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 Walter Babicz in cursive script.

Walter Babicz, Acting City Manager
Meeting date: January 25, 2021